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ROAD MAP FOR THE ESTABLISHMENT OF THE ECOWAS CURRENCY

By Alpha I. Diallo, Principal Economist

The new road map that will lead to the adoption of a single currency in West Africa was adopted on 25 May 2009. That road map is the outcome of the implementation of the instruction given by the Assembly of ECOWAS Heads of State and Government during its summit held on June 15, 2007 in Abuja, Nigeria, to review the two track approach currently in force which seems to be running out of steam and to find a single track approach to speed up the establishment of the ECOWAS common currency.

It is in pursuance of this mandate that since September 2007 in Accra, Ghana, all regional institutions involved the ECOWAS Monetary Cooperation Programme (ECOWAS Commission, WAMA, WAMI, Central Banks and UEMOA Commission) have met on several occasions.

Thus, technical and convergence council meetings to assess work done to achieve the single currency were held respectively in Ouagadougou, Burkina Faso (8- 9 October 2007) and in Abuja, Nigeria (22 November 2008). Following this last meeting, it was recommended that a Working Group made up of the institutions stated above be established. This group was mandated to define and propose a concrete and realistic strategy, taking into account previous studies and using as background document the Strategic Plan developed by WAMA for the establishment of a single currency for ECOWAS. The strategy should lead to the establishment of this currency within a reasonable timeline.

With this mandate, the inter institutional working group, under the authority of the ECOWAS Commission, organized a retreat in Abuja from 16 to 18 February 2009 to draw up a road map for the creation of a single currency which was reviewed by the Technical Monitoring Committee before adoption by the Convergence Council.

The road map in its major outlines provides for the launching of the ECOWAS single currency in 2020, at the same time as the common Central Bank which will be responsible for the management of the currency. The launch of the Eco, the currency for WAMZ (West African Monetary Zone) is scheduled for an earlier date in 2015. The establishment and building of the ECOWAS Central Bank will be preceded by the definition of minimum standards that will ensure the harmonization of the various components of the road map.

In this regard, the major components and timetable for actions covered in the road map for the ECOWAS single currency programme are as follows:

- Implementation of the multilateral surveillance, including the operationalization of National Coordinating Committees (NCC) and harmonization of convergence criteria in 2009;
- Adoption of harmonized convergence criteria before the end of the first half of 2010;
  - Harmonization of statistics, internal taxation, legal framework and accounting systems by 2014;
  - Harmonization of banking regulation and supervision, accounting and reporting framework of banks, monetary policy framework, and payment systems infrastructure between 2009 and 2013 ;
  - Establishment of payment infrastructure in Sierra Leone, Guinea and Gambia between 2009 and 2012 through a WAMZ project;
  - Gradual removal of all tariff and non tariff barriers in order to facilitate the free movement of goods, persons and services within ECOWAS;
  - Stabilization of exchange rates to be achieved by 2018 before the launching of the single currency scheduled for 2020;
  - Liberalisation of capital account in ECOWAS Member States in 2011;
  - Continuous integration of financial markets (capital, insurance, banks, pension funds);
- Introduction of an supplementary draft text to the ECOWAS treaty on the Monetary Union in 2017
- The establishment of a Committee of experts led by an eminent personality that will make proposals, three years before the launch of the ECOWAS single currency on the following actions:
- Technical design and production of monetary signs of the common currency ; Fixing irrevocably the exchange rates between currencies ;
- Definition and declaration of the exchange rate for the ECOWAS single currency at the IMF ;
- Consultations for the merger of the two monetary zones and the establishment of a common Central Bank.
- Launching of the Monetary Union, Central Bank, introduction of the ECOWAS common currency and withdrawal of national currencies of Member States in 2020.

Alongside the Comprehensive Programme for establishing the ECOWAS single currency, the programme for creating the West African Monetary Zone (WAMZ) currency, the ECO, in 2015 will be pursued based on the following timetable:

- Ratification of legal instruments of WAMZ by 1st July2014 ;
- Contribution to the WAMZ Stabilization and Cooperation Fund before end of 2014 ;

- Launch of WAM Z Monetary Union, take off of the common Central Bank , Secretariat and WAMZ Supervisory Authority before 1st January 2015 ; ‘
- Introduction of WAMZ common currency, the ECO, on 1st January 2015 ;

- Withdrawal of national currencies of WAMZ Member States between 1st January and 30 June 2015.

It is hoped that if the road map is faithfully implemented, the dreams of the founding fathers of ECOWAS would be realized.

IMPACT OF THE INTERNATIONAL ECONOMIC CRISIS ON ACHIEVING ECOWAS CONVERGENCE CRITERIA

By Alpha Diallo, Principal Economist

The world economy was hit in 2007 and 2008 by a succession of crises. The spiral started off with the food crisis which was mainly caused by the increased use of cereals in the production of bio-fuels, coupled with a series of adverse climatic conditions which affected certain production areas. This situation resulted in a substantial increase in the prices of foodstuff. Following these developments, the hike in the prices of energy products recorded especially during the first half of 2008 eventually worsened inflationary pressures which particularly affected poor and medium income countries.

Whilst economic policies were being implemented in order to contain the effects of these dual crises, another, this time of a financial nature, broke out in broad daylight. It should be underscored that this new crisis started in 2007 with the explosion of the fixed assets bubble in the U.S.A. It stemmed from the combined effects of several factors, some of which are familiar to the previous crises, while others are new. Like during the previous financial upheavals, the period preceding the crisis was characterized by an upsurge in the prices of assets which became unsustainable; a protracted period of credit expansion, leading to debt accumulation; the emergence of new types of financial instruments; and the inability of the regulating bodies to effectively monitor these developments.

The international economic crisis plunged the world economy into a profound slowdown. According to the January 2009 world economic prospects, world growth is expected to slow down from almost 3.5% in 2008 to 0.5% in 2009.

Against the backdrop of such a difficult international environment, one could imagine the impact of all of these upheavals on the ECOWAS economies generally and on the macroeconomic convergence in particular. As a matter of fact, it goes without saying that the international economic crisis worsened member countries' difficulties in achieving and consolidating the macroeconomic gains needed to meet the targets of the ECOWAS Monetary Co-operation Programme (EMCP). This explains why studies have been conducted at both national and regional levels to evaluate the impact of these crises on the economies of member States as well as the possibility for them to meet the exigencies of regional integration, particularly in terms of their compliance with the set convergence criteria.

The ECOWAS convergence criteria adopted by decision A/DEC.7/12/99 of the Assembly of Heads of State and Government in December 1999 is made up of 10 indicators. These cover the real sector, public finance and external sector and are categorized into four (4) primary criteria and six (6) secondary criteria. In fact, the priority criteria are the primary ones and involve streamlining of public finances, price stability, reduction in budget deficit financing by the Central Bank and the accumulation of significant reserves to cover imports.

Effect of the Crisis on the Realization of Convergence Criteria

In 2008, efforts at achieving the ECOWAS convergence criteria were seriously disrupted by the impact of the two pronged external shocks of food and energy prices which led to a net increase in inflation and the deterioration in public finances. As a result, only one country in the Community could meet the criterion on inflation. At the sub regional level, WAMZ met three out of four criteria whilst UEMOA met two. The other two countries that do not belong to either zone, namely Liberia and Cape Verde complied with two criteria and one criterion respectively.

In the WAMZ zone, the economic situation presented a break between the beginning of the year marked by petroleum prices that were still promising and an end of year disrupted by falling prices and the early impact of a worldwide economic slow down. The downward trend in oil prices towards the end of 2008 led to a firming up of public finance (1.7% of GDP in 2008 against 2.3% in 2007) and the current account surplus (15.2% of GDP against 9.7% of GDP in 2007). Like the UEMOA zone, the WAMZ zone recorded a net upsurge in inflation (15.3% against 7.3% in 2007).

With regard to UEMOA, economic activity recorded a slight improvement in spite of the very tough international economic situation. GDP growth rate was 3.9% in 2008 against 3.3% in 2007 mainly due to favourable climatic conditions and deliberate measures to support agricultural production. The dividend of this growth were however compromised by strong inflationary pressures (8.55 against 2.9% in 2007), a worsening of the overall deficit of the current account (-6.0% in 2008 against -4.1% in 2006) and a widening of the overall budget deficit (-5.6% of GDP in 2008 against -5.1% in 2007) resulting in treasury difficulties and, some countries, an accumulation of payment arrears.

As in WAMZ countries, the double shock of high food and energy prices affected economic indicators of Cape Verde and Liberia. In Cape Verde, 2008 was marked by a down turn in the expansion of economic activity (6.7% against 5.9 % in 2007). Inflation was also on an upward trend (6.8% against 4.4% in 2007) and the budget balance deficit excluding grants stood at 5.8% against 3.4% in 2007.

Liberia was spared the negative impact of the shock. On the contrary, Liberia recorded a growth in economic activities, (9.5% against 7.1% in 2007), a decline in inflation (9. 4% against 11.7% in 2007), and a slight increase in the budget deficit excluding grants which settled at 2.0% against 3.4% in 2007.

Besides, economic prospects for 2009 are disturbing as they will be affected by contagious effects of the world economic crisis.

Though in 2008, the Community was relatively spared the direct effects of the international financial crisis, the so called second round effects passing through the real sector of the economy (export earning, capital flows and transfers by migrants) are already being observed. Growth projections in countries are showing a down turn in the WAMZ zone (6.0% in 2009 against 6.4% in 2008) and a slight improvement in UEMOA zone (4.9% in 2009 against 3.9 in 2008).

The drop in oil revenue could reflect in the worsening of the position of the current balance in the WAMZ zone. At the same time, inflation will follow a downward trend, to settle at 9.4% in 2009 against 15.3% in 2008 in WAMZ zone and 5.6% against 5.8% in 2008 for the UEMOA zone. (See Table below).

Table: Trends in convergence criteria within ECOWAS

WAMZ COUNTRIES, CAPE VERDE AND LIBERIA					UEMOA COUNTRIES				
PRIMARY CRITERIA	2007	2008*	2009**	**Countries**	**PRIMARY CRITERIA**	2007	2008*	2009**	**Countries**
Budget Deficit	3.4	5.8	11.5	**CAPE VERDE**	Budget Deficit	1.5	4.1	5.1	**BENIN**
Inflation Rate	4.4	6.8	4		Inflation Rate	0.3	9.9	3.5	
Financing by CB	0	0	0		Financing by CB	0	0	0	
Gross Exchange Reserves	4.1	4.1	4		UEMOA reserve including country (indicative)	6.3	6	6	
Budget Deficit	1	3.7	3.3	**GAMBIA**	Budget Deficit	12	12	11	**BURKINA**
Inflation Rate	6	6.8	5		Inflation Rate	2.3	11.6	3.9	
Financing by CB	0	0	0		Financing by CB	0	0	0	
Gross Exchange Reserves	4.4	4.3	4.7		UEMOA reserve including country (indicative)	6.3	6	6	
Budget Deficit	15	18.6	18	**GHANA**	Budget Deficit	1.4	1.7	0.6	**COTE D'IVOIRE**
Inflation Rate	13	18.4	18.4		Inflation Rate	1.5	8.9	3	
Financing by CB	0	17.3	17.3		Financing by CB	0	0	0	
Gross Exchange Reserves	3.9	2.4	2.2		UEMOA reserve including country (indicative)	6.3	6	6	
						4	3.6	3.5	
Budget Deficit	0.9	1.5	3.7	**GUINEA**	Budget Deficit	23	20.3	27	**GUINEA BISSAU**
Inflation Rate	13	13.5	7.7		Inflation Rate	9.3	8.7	3.8	
Financing by CB	0	5.8	0		Financing by CB	o	0	0	
Gross Exchange Reserves	0.4	0.5	1.1		UEMOA reserve including country (indicative)	6.3	6	6	
Budget Deficit	3.4	2	2	**LIBERIA**	Budget Deficit	8	8.5	9.6	**MALI**
Inflation Rate	12	9.4	9.1		Inflation Rate	2.2	7.8	2.6	
Financing by CB	0	0	0		Financing by CB	0	0	0	
Gross Exchange Reserves	0.7	0.7	0.7		UEMOA reserve including country (indicative)	6.3	6	6	
Budget Deficit	1.2	0.2	0.4	**NIGERIA**	Budget Deficit	8.2	6.4	14	**NIGER**
Inflation Rate	6.6	15.1	7.7		Inflation Rate	4.7	13.6	3.9	
Financing by CB	0	0	0		Financing by CB	0	0	0	
Gross Exchange Reserves	17	14.7	14.6		UEMOA reserve including country (indicative)	6.3	6	6	
Budget Deficit	5.6	6.4	8.1	**SIERRA LEONE**	Budget Deficit	6.3	6.5	5.4	**SENEGAL**
Inflation Rate	14	13.2	10		Inflation Rate	6.1	4.3	3.6	
Financing by CB	0.8	0	0.5		Financing by CB	0	0	0	
Gross Exchange Reserves	5.1	4.2	4.6		UEMOA reserve including country (indicative)	6.3	6	6	
							4.4	4.2	
					Budget Deficit	1.4	4.7	6.2	**TOGO**
					Inflation Rate	3.4	10.2	4.3	
					Financing by CB	0	0	0	
					UEMOA reserve including country (indicative)				

Sources: WAMA, ECOWAS Central Banks, 2009

Policy Response

Within this exceptionally difficult context of crisis, macroeconomic stability and sustained progress towards targets set in the ECOWAS Monetary Cooperation Programme are of prime importance for the Community. Consequently, in addressing the crisis, member countries should strive to preserve macroeconomic stability and consolidate hard won gains without losing focus on the major objectives of the programme. They should also seize the opportunity to speed up their structural reforms so as to strengthen growth prospects.

Thus, all economic policy instruments available must be mobilized to mitigate the effects of the global recession on economic activity and social conditions; they may be monetary policy, budget policy, or financial sector policies implemented by each member state and at the sub regional level.

In terms of monetary policy, as inflation is declining, the monetary policy could be relaxed. The fall in world fuel prices and the more moderate decline in food prices have led to deflationary trends in many countries, reduced the need to tighten monetary policy and in others, paved the way for the relaxation of these policies. This is the case in most countries of the Community except Ghana, Guinea, Liberia and Nigeria. In these countries where inflation remains high and the pressure of demand persists, they may have to tighten their monetary policy.

As regards exchange policy, exchange rate movements may help restore competitiveness and growth if the downward trend in commodity prices proves to be permanent. WAMZ countries with a flexible exchange rate regime, experiencing the adverse effects of terms of trade, could allow their real exchange rate to depreciate in order to stabilize their economies. UEMOA countries and Cape Verde need to avoid situations of persistent overvaluation which can compromise growth in the long term and trigger haphazard adjustment.

Concerning budget policy, government must preserve the gains in terms of macroeconomic stability without worsening the impact of shrinking external demand on domestic activity.

To sustain growth and have a budgetary leeway, all countries are advised to pursue structural budgetary reforms. Reforms in tax administration aimed at improving efficiency will reduce the cost of tax collection for the State and the cost of fulfilling tax obligations for the private sector. An improvement in debt and treasury management would also lead to savings.

In the financial sector, policies to be developed should help strengthen control and beef up intervention plans in the face of unforeseen circumstances. Monetary authorities must therefore detect weaknesses in the banking system.

To achieve this, they must have an inventory of banks that are the most exposed to the current crisis and stress the importance and regularity of data to assess performance in terms of liquidity and solvency of banks and carry out credit risk diagnosis and resilience tests.

Supervision must also be as widespread as possible and cover exchange risk, risk management practices of banks, criteria for granting credit and reliability of funds. It must also be extended to savings and credit institutions and non bank financial institutions.

In sum, it is worth noting that like other regions across the world, ECOWAS is experiencing the effects of international crises. Demand for African exports is declining, petroleum prices are falling and remittances from migrant workers have reduced. The credit crunch around the world and investors' aversion for risk have led to a reversal of portfolio investment flows, discouraged Foreign Direct Investment (FDI) and made trade financing more costly. This down turn in economic activity could increase credit risk and unproductive loans, and weaken the balance sheet of financial institutions and companies.

Consequently, growth prospects for the Community in 2009 are not very bright in view of the economic slow down. In fact, due to the fall in commodities prices and pressures on capital flows, economic growth within the community would be below initial projections. Though a slight decline is being observed, annual inflation would remain high in many countries due mainly to rising energy and food prices on to mid 2008.

On the public finance front, budget balances are expected to worsen further, in so far as fiscal receipts, particularly those relating to raw materials, will suffer because of the economic situation and governments are expected to meet the growing demand for social expenditure.

With regards to the balance of payments, the adverse developments in the terms of trade of raw material exporting countries would deepen the regional deficit of current transactions. This situation could be worsened by the expected slowdown in foreign capital inflows in the region. In effect, funds remittances are likely to be affected, because in most cases; this situation originates from developed countries, where the slowdown in economic activity is most remarkable. Similarly, external aid could dwindle substantially while FDIs and portfolio investments could deteriorate further. In such conditions, foreign exchange reserves which are generally sufficient for now in most countries, would probably diminish in some countries.

In the light of the above observations, the major lesson to be learnt from this crisis is that only strong economies can absorb the effects of this type of crisis. Hence, the need for ECOWAS member countries to quickly implement all the measures provided for in the regional integration process, which would help them build an economic and political zone solid enough to meet the exigencies and consequences of globalization.

EXTENT OF POLICY HARMONISATION WITHIN ECOWAS IN 2008

By Dr. Andalla Dia, Senior Economist

Policy harmonisation constitutes one of the important aspects of the economic and monetary integration process in ECOWAS. In this regard, ECOWAS Member States are expected to adhere to certain common principles with respect to capital account liberalisation, harmonisation of payment systems, banking supervision and regulation, trade liberalisation, free movement of persons, and harmonisation of statistics.

Capital Account Liberalisation

As far as capital account liberalisation within the community is concerned, it must be noted that Gambia and Liberia have so far fully liberalised their Capital accounts.

Besides, capital account liberalisation is in force amongst UEMOA member countries and there is an evident willingness on their part to open up to other ECOWAS countries.

As regards other ECOWAS countries (Cape Verde, Ghana, Guinea, Nigeria and Sierra Leone), they have opted for a prudent approach and continue to maintain some degree of control. It is therefore necessary to accelerate the process in order to promote investment and economic advancement in ECOWAS.

Harmonisation of payments systems

It is worth noting that significant progress is being made as far as the harmonisation and development of payment systems are concerned. Indeed, in the UEMOA zone, besides an already integrated and harmonised payment system, further progress continues to be made. In this regard, a reform of UEMOA payment systems was undertaken that focused on the following three major areas:

- the modernisation of the exchange and settlement systems for large value transactions with the introduction of a Real Time Gross Settlement System (R.T.G.S), especially for treasury payments, transfers, money market operations, stock market operations settlements, public debt settlement - dubbed the UEMOA Automated Transfer and Settlement System (UEMOA-STAR);

- The modernisation of exchange and settlement systems for small value transactions, namely mass payments: transfers, cheques, cards, with the launching of an automated multilateral clearing system, known as the UEMOA Automated Interbank Clearing System (UEMOA-SICA);

- The development of a sub-regional interbank card system introduced by the banking sector at the request of the BCEAO. This was done through the establishment of an UEMOA Interbank

Electronic Money Group (UEMOA-GIM) and the UEMOA Interbank Electronic Money Processing Centre (CTMI-UEMOA), thereby facilitating the promotion of cashless alternate payment systems.

All these innovations have been generated within a legal and regulatory framework built on management principles which adhere to international standards with respect to security, payment deadlines and risk management for the effective operation and strengthening of the financial system. In this connection, BCEAO has promulgated regulation No. 15/2002/CM/UEMOA which updated the legal framework to enable it respond to the myriad of security requirements arising from technological developments in terms of payment instruments. The UEMOA standard law on payment instruments also provides for a redress mechanism in case of infringement relating to the use of new mediums and procedures of payment. Mention can also be made of Directive 08/2002/CM/UEMOA which dwells on the promotion of banking and the use of new instruments as well as scriptural payment procedures; and Directive 01/2003/SP regarding the promotion of scriptural means of payment and the determination interest payable in case of default in payment. The community directive on the fight against money laundering and the promotion of scriptural means of payment serves as a supplement to this legal and regulatory framework.

With regard to the West Africa Monetary Zone (WAMZ), considerable efforts have been made to bring the financial and payment systems of member states at par with each other. Two countries (Ghana and Nigeria) have between them, a functional system for 'Real Time Gross Settlements - RTGS'. This system is being introduced in the other three member countries (Gambia, Guinea and Sierra Leone) thanks to funding from the African Development Bank (AfDB). WAMZ has also adopted common practices and standards with respect to cheques.

In a bid to develop a common and modern payments system (RTGS, Automatic Cheque Processing System, Automatic Clearing House, Bank cards processing system) that meet international standards, WAMZ found it useful to provide member countries with a solid regulatory framework. This framework, still awaiting adoption by Member States, will provide the means of control and supervision of electronic payment systems. The same laws and regulations will apply to all users in WAMZ countries. This would ease cross border payment and interconnection with that of UEMOA.

At the individual level, each member country is making tremendous efforts to be abreast with recent developments in terms of payment systems. Thus, the Central Bank of Nigeria has made progress, including the reduction of the clearing period to a maximum of two days throughout the country as well as the finalization of laws and regulations governing electronic payment systems by 2020. Ghana, on its part, has introduced an electronic payment system known as "e-zwich" which enables the card holder to make electronic transactions at any electronic sales point, terminal or automatic window in the country. It also allows the Card holder to have access to banking services across the country irrespective of the issuing bank. This system is speeding up banking transactions in Ghana.

Supervision and regulation of the banking system

In this regard, WAMZ countries have made the necessary arrangements to harmonize their banking laws to comply with the provision of Basle I principles in the area of banking supervision. UEMOA countries already have a unified banking regulation and banking supervision is done by the Banking Commission.

Trade liberalization

In terms of trade liberalization, issues pertaining to the Common External Tariff and protocol on VAT in member countries are not yet fully resolved. The implementation of the ECOWAS CET with a mechanism based on that of UEMOA is still being hindered by the harmonization of the regime of exceptions which fall under two categories. These are exceptions concerning products with tariffs different from the reference CET but for which Member States have decided to adopt the said CET by the end of the transitional period (type A) and exceptions regarding products for which Member States are requesting a change of category in relation to the reference CET (type B). The type B exceptions are being negotiated by ECOWAS/UEMOA joint Committee for the management of ECOWAS CET. Consensus has been reached on most of the issues raised under type B exceptions.

Concerning the introduction of VAT in all Member States, a study was conducted on the harmonization of laws governing VAT and excise duties in Member States. As regards customs instruments, progress has been made in terms of the harmonization of customs codes and values. A draft ECOWAS customs code is being finalized. A study has been conducted on conventions and a draft customs value for ECOWAS goods has also been prepared.

Free Movement of people

To ensure the free movement of people, measures taken are focused on the organization of pilot monitoring units to fight against harassment at borders, the establishment of the ECOWAS passport, international migration and cross border cooperation.

Harmonization of statistics

The execution of the regional statistical programme 2006-2010 is being pursued through the update of data from Member States, harmonization of statistical tools and regional statistical policy. The implementation of harmonized framework of programmes on national accounts, Consumer Price Index (CPI) and external trade statistics are also underway.

THE ROLE OF GOVERNMENT IN THE ECOWAS MONETARY COOPERATION PROGRAMME

By Samuel Adu-Duodu, Principal Economist

The Economic Community of West African States (ECOWAS) has since its inception in 1975 harboured the intention of establishing a monetary union in which a single currency would circulate in all its fifteen member States as the principal medium of exchange. The Authority of Heads of State and Government had envisaged that, given the multiplicity of national currencies circulating within the region, the establishment of a single monetary space would help reduce transactions costs and the uncertainties businessmen encounter in exchanges from one currency to another. It was also expected that a common currency would stimulate productive efficiency, encourage cross border financial intermediation and investment and facilitate intra-regional trade.

Brief Progress on the Monetary Cooperation Programme

However, the Monetary Cooperation Programme had suffered a number of set-backs since its adoption in 1987 as a result of which the timeframe for completion has been shifted on a number of occasions, first from 1992 to 2000, and then to 2004. Even a re-engineering of the strategy in 1999 from a single tract to a two-way fast-track approach did not yield the expected results.[1] This observation is evidenced by the Convergence Council's recent approval in May 2009 of a new road map which proposes a new timeframe for realization of the ECOWAS single currency objective by 2020, thereby allowing an adequate liberty for effective implementation of the Monetary Cooperation Programme.

In spite of the difficulties, significant progress has been made on all aspects of the programme since its inception in 1987, particularly in the area of macroeconomic governance. However, the major challenge has been the inability of member countries to meet the required quantitative and qualitative benchmarks within the scheduled time limits. In addition to macroeconomic difficulties arising from periodic external shocks and socio-

[1] The adoption of the fast-track approach culminated in the inauguration of the West African Monetary Zone (WAMZ) project in 2000 and the subsequent establishment of the West African Monetary Institute (WAMI) in 2001 to oversee implementation of the project. This timeframe of this project has also been extended on three occasions: first from 2003 to 2005, then to 2009 and recently to 2015.

political instability, some of the economies still suffer from the incidence of fiscal dominance and inadequate policy coordination. Other debilitating factors relate to inadequate political commitment in certain countries resulting in delays in the ratification and implementation of relevant protocols and policy decisions, leading to inadequate compliance with the requisite benchmarks. For instance, certain countries still do not incorporate the convergence criteria and other agreed regional programmes into their national budget statements and programmes inspite of numerous recommendations in this respect.

Certainly, member States need to redouble their efforts in order to maintain the credibility of the monetary cooperation programme and forestall continuance of the spate of re-extension of established timeframes. This necessity calls for a review and strengthening of the implementation modalities in a pragmatic and concerted manner. The new road map seeks to provide the relevant mechanisms for an enhanced and sustainable momentum towards the single currency objective. The strategic measures have been designed to ensure effective collaboration of all the regional institutions concerned with the Monetary Cooperation Programme, namely, the West African Monetary Agency (WAMA), the West African Monetary Institute (WAMI), the UEMOA Commission and the ECOWAS Commission. It also requires the effective participation of the all identifiable stakeholders, among which the most notable is the government in the member States concerned.[2]

The difficulties associated with the ECOWAS Monetary Cooperation Programme call for greater involvement of government in the integration process. It is paramount that governments within the region adopt the principles of good governance which requires them to conduct their affairs, manage and guarantee human rights with due regard to the rule of law devoid of corruption in their respective countries. The adoption of this principle would go a long way to address the periodic problems of social unrest and forestall the incidents of political instability that often leads to the derailment of government programmes in the long run. The effective realization of this objective would require the active

[2] For the purposes of this article, government is defined to include all its three arms, that is, the executive, legislature and judiciary

involvement of all arms of government, that is the Executive, the Legislature and the Judiciary.

Role of the Executive

Being the supreme authority in member States, the Executive has utmost responsibility to provide the general direction and oversee effective implementation of Community objectives. After defining the general policy guidelines and the broad areas of economic and political integration for the Community, the political leaders can promote the spirit of regional cooperation by maintaining cordiality and bonds of friendship among the countries concerned. The maintenance of cordiality is very important as there have been instances where commitment to regional programmes has been derailed owing to disharmony between two or more political leaders.

The political authorities also need to exhibit adequate commitment to the integration process by taking proactive roles in ensuring speedy realization of the Monetary Cooperation Programme. In this regard, the Executive need to ensure compliance with established protocols and policy decisions at the national level. One specific issue in point is the problems relating to delays in the implementation of protocols relating to the free movement of goods, persons and capital. Apart from furthering the expectations of the founding fathers of ECOWAS, strict implementation of this protocol would deepen the monetary integration process by facilitating integration of the financial sector and intra-regional trade.

Another area of executive responsibility relates to the formulation and implementation of sound macroeconomic policies, which are prerequisites for economic stability and creation of the congenial environment required for a successful monetary union. In particular, the convergence process could be sustained if the various governments apply the tenets of good macroeconomic governance by emphasizing fiscal prudence, effective policy coordination and the avoidance of other excesses that often times result in macroeconomic instability. The process could also be facilitated if the executive would endeavour to factor the regional programmes into their national development agenda, especially by inculcating the convergence targets into the annual budget statements.

Furthermore, members of the Executive need to support the establishment of relevant financial institutions such as the proposed Community Central Bank and other requisite infrastructure in the areas of payments systems, telecommunication and energy development. The financial requirements for the provision of relevant institutions, infrastructure and legal and regulatory frameworks are enormous and well beyond the means of private sector concerns. Therefore, governments must facilitate the process by providing adequate financing based on the conviction that economic and monetary integration is an expensive venture without which the ultimate objective may not be achieved.

The Executive arm of Government can also facilitate the implementation process by enhancing the quality of its oversight responsibility by monitoring the activities of ministries and agencies handling various aspects of the integration programme, particularly the Ministries of Finance, Trade, Regional Integration and the Central Bank. In this regard, the Heads of State could develop a schedule by which the various Ministers and central Bank Governors would be required to provide periodic updates on their areas of responsibility. The adoption of this methodology would help enhance the synergy among the responsible institutions and provide the impetus for accelerated implementation of relevant programmes.

Role of the Legislature

The Legislature or Parliament in member countries can also assist the process by providing the required legal support under the monetary cooperation programme. The establishment of a monetary union most often require the modification of national laws to reflect the regional agenda and provide legal backing to new procedures, mandates and institutions at the national level. An issue of current concern under the multilateral surveillance mechanism is the establishment of National Coordinating Committees in all member countries.

These bodies, which are supposed to handle the technical aspects of the integration programme at the national level and collaborate effectively with the regional implementing institutions, require legal backing to enable them operate effectively. Other areas that would require the domestication of regional laws, and thus necessitating the prompt attention of the National Parliaments is with respect to the banking laws defining the operations of the Central bank and other financial institutions, development of payments systems, among a myriad of other relevant provisions.

Role of the Judiciary

In addition to providing the institutional mechanism for guaranteeing the protection of human rights at the national level in accordance with community standards, the national Courts of Justice could support the actions of the other two arms of government (the national Executive and Parliament) by extending their jurisdictional mandate to cover disputes relating to the application and interpretation of the ECOWAS Treaty.

Of particular interest, the judiciary could play a role in pushing the integration agenda forward by strengthening the guarantees in the community decision-making process under the monetary cooperation programme. For instance, the National Courts could be mandated to work closely with the regional institutions such as the ECOWAS Commission, ECOWAS Parliament and the ECOWAS Court of Justice in highlighting the protocols and decisions that require ratification and implementation.

Concluding Remarks

The effective implementation of the ECOWAS Monetary Cooperation Programme requires the concerted efforts of all the established arms of government at both the regional and national level. A strong political commitment at the national level is important to enable member States overcome the macroeconomic difficulties. An enhanced level of regional cooperation based on cordiality is also necessary in ensuring sustainable implementation of relevant protocols. It is in this regard that the possible adoption of the NEPAD concept regarding the peer review mechanism is recommended in the monetary integration process. The incorporation of the principle into the Monetary Cooperation Programme would facilitate the integration process by ensuring the effectiveness of implementation of relevant policy decisions and protocols, setting the required standards and practices, furthering political stability and ensuring macroeconomic stability.

MACROECONOMIC CONVERGENCE IN ECOWAS: AN UPDATE

By Alieu Ceesay, Economist

This section describes the performance of various ECOWAS member States with regard to the convergence criteria as at end - 2008 and the projections for end-2009. Movement towards macroeconomic convergence in recent years remained mixed as there was no significant improvement in over all performance.

Table 1.1: Number of Countries that Met the Convergence Criteria in ECOWAS

Criteria/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Budget Deficit	6	6	5	5	3	5	6	8	6	5
Inflation	11	9	10	10	9	9	8	7	1	9
Reserves	10	10	9	9	9	1	9	9	9	9
Central Bank Financing	12	13	12	11	14	15	13	15	14	15
Domestic Arrears	4	4	3	4	4	3	8	4	5	8
Tax Revenues	1	0	0	0	2	2	2	2	2	3
Salary Mass	6	6	5	8	5	7	8	9	7	7
Domestic Investments	6	6	5	5	7	6	7	7	7	7
Real Interest Rate	12	6	8	9	7	7	6	6	0	4
Real Exchange Rate	-	11	12	7	12	12	12	12	5	15

Source: WAMA * Projections

Some member countries found it difficult to sustain their performance in respect of targets realized in preceding years. Table 1.1 above provides an overview of the number of countries (out of the fifteen ECOWAS Member States) that met the ECOWAS convergence criteria.

Performance under inflation was poor during the period, with only one country (Senegal) meeting this criterion, compared to 7 in 2007. This was attributable to the food and fuel crises which affected majority of the ECOWAS countries.

Performance with respect to the budget deficit criterion also deteriorated from 8 to 6 countries in December 2007 and December 2008 respectively. High fiscal deficit rates (above 15.0%) were recorded in Ghana and Guinea Bissau, while Burkina Faso, Mali and Sierra Leone registered fiscal deficits of above 7.0 percent of GDP.

Fourteen countries met the required target for central bank financing of the budget deficit during the period under review, compared to 15 in 2007. Central bank financing of the budget deficit was relatively high in Ghana during the period (17.3%) as a result of fiscal slippages experienced in 2008. With the exception of Guinea, which recorded deficit financing of 5.8 percent, there was zero-financing of fiscal deficits in all the other countries.

Regarding gross external reserves, nine countries (Nigeria and the eight UEMOA countries) were able to meet the target during the period, thus maintaining the same level of achievement since 2006. The low levels of international reserves in Guinea (0.5 month), Liberia (0.7 month) and to a lesser extent Ghana (2.2months) were cause for concern. Table 1.1 further shows that performance under the secondary criteria was generally also less than satisfactory. Two countries met the tax receipts/GDP target during the period under consideration. With the wage bill constituting a large proportion of domestically generated tax revenue in most countries, meeting this benchmark remained difficult. There was prevalence of negative real interest rates in a majority of countries as at end-2008, with none of the countries meeting the target of positive real rates. In general, real exchange rates remained unstable in member countries and the criterion was satisfied by only 5 countries in 2008, compared to 12 in 2007.

Table 2.2 gives a summary of the total number of criteria (primary and secondary) satisfied by each country. It should be noted that this table does not take into account the domestic arrears criterion due to the lack of responses from several countries. Table 2.2 indicates that none of the countries has yet been able to meet all the primary and secondary convergence criteria. As at end-2008, the best performance of 7 targets was recorded by Senegal, which was closely followed by Benin with 6 targets. Burkina Faso, Mali, Niger and Nigeria met 5 targets each, while Cote d’Ivoire, The Gambia and Guinea attained 4 benchmarks each. Cape Verde, Liberia and Togo met 3 targets each, while Ghana and Guinea Bissau achieved 2 targets. Sierra Leone met one criterion during the period.

Table 2.2: Total Number of Convergence Criteria Met

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
BÉNIN	6	7	8	7	7	5	5	9	6	8
BURKINA FASO	6	6	6	7	7	6	7	7	5	7
CAP-VERT	3	3	3	4	4	4	4	4	3	4
COTE D'IVOIRE	5	5	5	5	6	5	7	6	4	7
GAMBIA	7	2	0	1	4	4	6	4	4	5
GHANA	2	1	0	2	3	3	3	4	2	4
GUINEA	1	5	3	1	1	3	2	4	4	5
GUINEA-BISSAU	3	5	5	4	6	4	6	3	2	5
LIBERIA	7	4	4	3	2	3	3	3	3	3
MALI	7	5	7	8	8	7	7	8	5	7
NIGER	5	6	5	7	6	5	8	7	5	8
NIGERIA	5	4	4	4	5	5	5	6	5	6
SENEGAL	7	9	9	9	8	8	7	5	7	8
SIERRA LEONE	3	3	3	0	1	1	0	2	1	1
TOGO	4	5	6	7	6	5	7	7	3	5

Source: WAMA

EXCHANGE RATE MOVEMENTS AS AT END JUNE 2009

By Alhassane Diallo, Statistician

1. Trends in the WAUA in relation to major international hard currencies

The major international hard currencies (US dollar, Euro, Pound sterling and yen) in June 2009 recorded uneven trends in relation to the WAUA[3].

In June 2009, the weekly fluctuations of the WAUA against the four major international hard currencies fell between the bands +/-1%.

Compared to May, trends in exchange rates in June reflected nearly 5% drop in value of the WAUA in relation to the Pound Sterling. On the other hand, the WAUA appreciated marginally against the US Dollar (1.6%).

Besides, half year movements showed that the WAUA lost ground considerably against the British Pound (10.6% at the end of the period and 7.6% on the average).On the contrary, it recovered steadily against the Japanese Yen (7.5% on the average and 6.0% at end of period).

It appears that the Yen and Pound Sterling are the currencies that have fluctuated the most especially, the Yen which appreciated significantly in June 2008. The WAUA gained 14.6% on the average and 15.2% at end of period against the British Pound whilst it lost 14% both at end of period and on the average against the Yen.

2. Trends in the WAUA in relation to ECOWAS currencies

In May 2009, weekly fluctuations were more or less 1% for the CFA and Escudo which have a fixed parity with the Euro. The Cedi, Naira and Leone showed similar margins of fluctuations. This was not the case for the Dalasi, Guinean Franc and Liberian Dollar which recorded higher weekly variations.

With regard to trends in relation to May 2009, the movement of monthly averages showed that all ECOWAS currencies on the average depreciated against the WAUA with the exception of the Guinean franc and Escudo. Judging from end of period rates, the Guinean franc and, to a lesser extent, the pair CFA- Escudo recorded gains against the ECOWAS unit of account.

Concerning half year trends, they revealed that besides the Liberian Dollar and Leone,

[3] The West African Unit of Account with has a fixed parity with the IMF SDR (1WAUA = 1SDR)

all ECOWAS currencies firmed up against the WAUA at end of period. In this regard, it is worth noting that the most significant appreciation was recorded by the Dalasi (+30%) which benefited from the recovery of the Pound Sterling following a sharp fall towards the end of 2008. Trends in monthly average exchange rates reflect a reverse situation. Consequently, aside the Cedi and Naira all the other currencies depreciated against the WAUA in the first half of 2009.

Compared to June 2008, the movements showed that aside the marginal appreciation of the Guinean franc at end of period, all the currencies of the sub region have depreciated against the ECOWAS unit of account. The Cedi, Naira and Dalasi recorded the most significant depreciation.

3. **Trends in bilateral exchange rates**

The CFA franc and Escudo benefited from the good performance of the Euro in June to firm up against all the other ECOWAS currencies, particularly in terms of monthly average. Similarly, the Guinean franc benefited from significant gains against the Dollar to appreciate against the other currencies of the sub region especially, as far as end of period rates were concerned. On the contrary, the Cedi, Liberian Dollar and Leone declined in relation to most of the ECOWAS currencies. The Nigerian Naira and the Dalasi recorded mixed results. These currencies depreciated against the UEMOA currency and Guinean franc but firmed up against other currencies of the region.

NEWS FROM AROUND THE WORLD

1. APPOINTMENTS

In the first half of 2009, the West Africa banking world saw the appointment of new governors of Central Banks in three ECOWAS countries, namely: Guinea, Sierra Leone and Nigeria.

CENTRAL BANK OF THE REPUBLIC OF GUINEA (BCRG)

Mr. **Alhassane BARRY** was appointed Governor of the Central Bank of Guinea on January 16, 2009 to replace Mr. **Daouda BANGOURA.** The new governor is a high ranking executive in the banking and financial sector who has built his entire career at the Central Bank and taken several training courses both in Guinea and abroad in major international financial institutions. Before his appointment, Mr. BARRY was the General Manager responsible for Audits at BCRG.

His mission is to streamline monetary and financial circulation, strengthen the Guinean franc and fight against corruption in the banking system as well as transform the Central Bank into a model institution.

BANK OF SIERRA LEONE (BSL)

The Bank of Sierra since 22 May 2009 has at the helm of affairs **Mr. Sheku S. SESAY** as Governor. He replaced Dr. **Samura KAMARA**, who has been appointed Minister of Finance and Economic Development. Prior to his appointment Mr. Sesay was the Deputy Finance Secretary of Sierra Leone. He has a wealth of knowledge and experience, having pursued his studies in the United States and taught at the University of Freetown. He worked briefly at the Ministry of Planning and Economic Development. He later joined the African Development Bank ADB where he spent over two decades and occupied various positions at the headquarters and served as resident representative in several countries.

The new Governor of the Bank set for himself the objective of developing the banking and financial sector in Sierra Leone and protecting the national currency.

CENTRAL BANK OF NIGERIA (CBN)

In Nigeria, **Malam S. Lamido SANUSI** was appointed Governor of the Central Bank in May 2009 replacing Prof. Charles Chukwuma SOLUDO. Before his nomination, Mr. SANUSI was the Managing Director of First Bank in Nigeria. Prior to that, he was general manager in the Credit and Risk Management Department at the United Bank for Africa (UBA).

He has extensive banking and financial sector experience and has made great contributions to the development of the framework, policies and processes necessary for the implementation of the Basle 2 principles.

2. COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA):

Another example of regional integration in Africa, the Common Market for Eastern and Southern Africa (COMESA) brings together about twenty countries from this part of the African continent.

The main objectives of COMESA are defined in its treaty. This treaty which defines the programme of the organization covers a wide range of sectors and activities. However, the full realization of COMESA's mission is considered as a long term objective. To ensure greater effectiveness of its mission as an institution, COMESA has set as priority the promotion of regional integration through trade and investment in the medium term.

The role of COMESA Secretariat is to help Member States make the necessary adjustments in order to integrate the world economy in accordance with the World Trade Organization rules and other international agreements. This would be achieved through an "externally oriented" regional integration. Consequently, the aims and objectives of COMESA as defined in its Treaty and Protocols which are to facilitate the removal of structural and institutional weaknesses of Member States to enable them achieve collective and sustainable development. Like ECOWAS, COMESA aims at becoming:

- A regional economic community fully integrated at the international level ;
- A community which enjoys economic prosperity demonstrated by high standard of living among its people as well as political and social stability ;
- A community where goods, services, capital and labour can move freely across borders.

The areas of intervention of COMESA are, among others, trade in goods and services (including payment and settlement mechanisms), investment promotion and facilitation, infrastructure development, peace and security. In addition, the development of information technology is both a challenge and an opportunity for COMESA.

COMESA is endowed with great resource potentials with 90% of its arable land suitable for cultivation; some of the largest rivers in the world (Zambezi, Congo, Limpopo) and one of the longest river in the world (the Nile) are found in the region; it also has a vast potential for development including (water transport, hydroelectric power production with the potential of 700 billion KW, with 96% of it unexploited).

The region also has an abundance of mineral resources estimated at about 300 billion tons of phosphate, 105 billion tons of iron ore, 200 billion tons of oil, and huge quantities of uranium, copper and cobalt. The COMESA region also holds 60% of livestock on the African continent (estimated at 300 million heads in 1997).