

The Institutional Framework for ECOWAS Monetary Union

Momodou B. Saho

West African Monetary Agency



[ECOWAS - Who We Are]



- 15 countries
- Population 335 million
- GDP \$637 billion
- Area 5.1m KM²
- 3 official languages
- 1000+ local languages
- Different economic policy frameworks



[The Founding Fathers]



H.E. William V.S Tubman



H.E. General Yakubu Gowon



H.E. General Gnassingbé Eyadéma

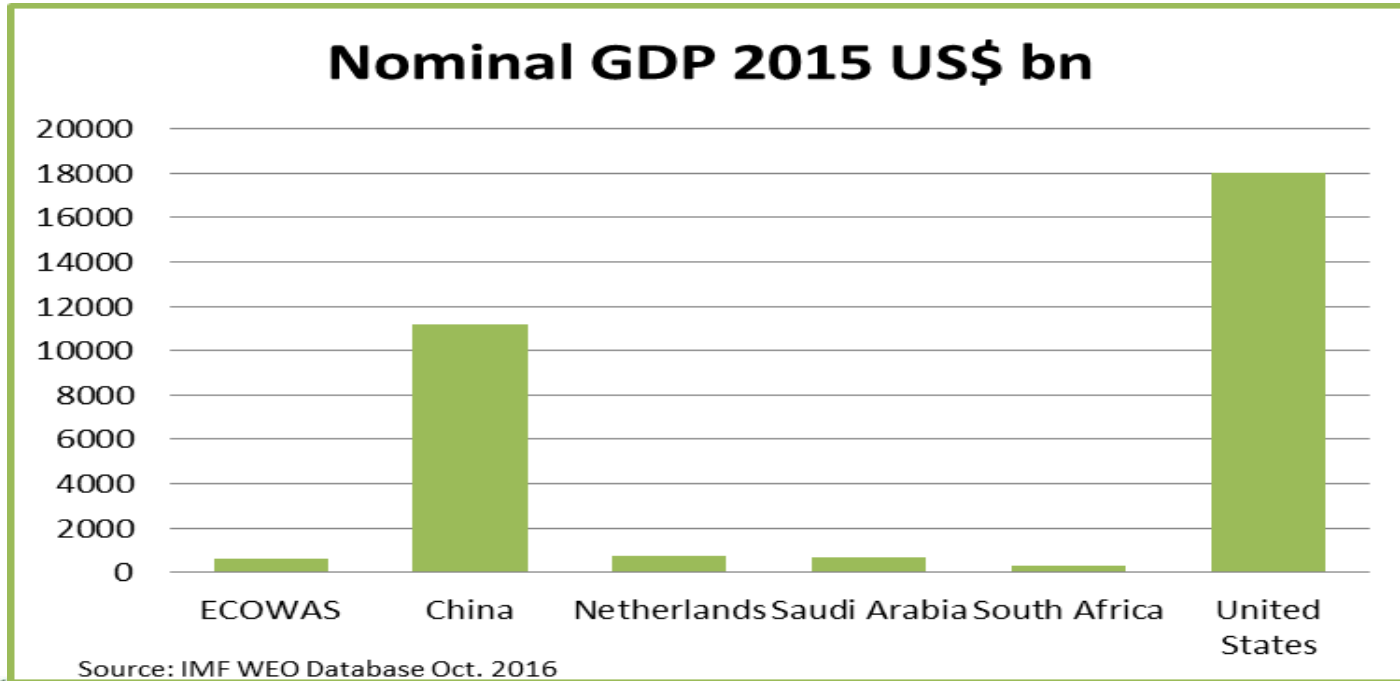


Objectives of West African Integration- Economic

- Improve the living standards of people of the region by addressing:
 - Low volumes of intra-regional trade
 - Multiplicity of non-convertible currencies
 - Underdeveloped financial systems
 - Small fragmented markets
 - Economic policy implementation discipline



Size of the ECOWAS Economy



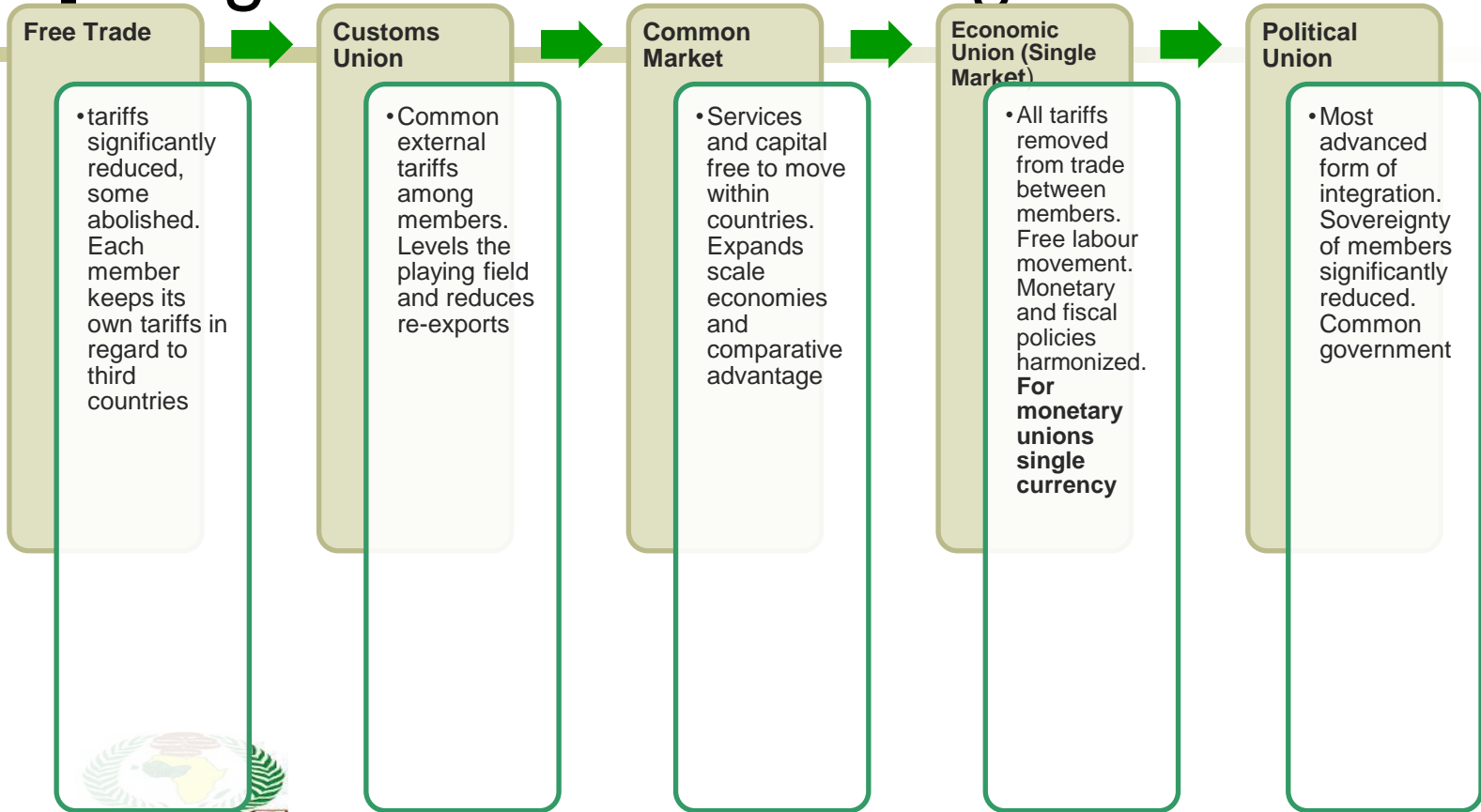
Objectives of West African Integration- Political

Gen. Yakubu Gowon in 2015 “The objective when we founded ECOWAS was for an organisation that will work for the benefit of all people in the Community and pending when the dream of a United States of Africa is realised...”

Source: ECOWAS



Stages of Economic Integration



The Legal and Institutional Framework

- The **1975 ECOWAS Treaty** (Lagos 28 May 1975)
- The **Revised ECOWAS Treaty 1993** (Cotonou 24 July 1993)
- **Decision A/DEC.6/5/83** created the ECOWAS Single Monetary Zone
- **Decision A/DEC.2/7/87** established the ECOWAS Monetary Cooperation Programme (Abuja July 1987)
- **Protocol A/P.1/7/93 Relating to WAMA** (Cotonou 24 July 1993)
- **Decision A/DEC.17/12/99** adopted convergence criteria as part of the EMCP (10 December 1999)



The Legal and Institutional Framework (cont.)

- **Decision A/DEC.17/12/01** created a Mechanism for Multilateral Surveillance of economic and financial policies of Member States (Dakar 21 December 2001)
- Adopted the Supplementary Act Relating to the Macroeconomic Convergence and Stability Pact Among ECOWAS Member States
 - **Supplementary Act A/SA.4/06/12** adopted 29 June 2012
 - **Supplementary Act A/SA.01/12/15** adopted in Dakar on 16 December 2015 rationalised the convergence criteria to four primary and two secondary criteria. It also set the deadline for macroeconomic convergence to **31 December 2019**.



The 1975 ECOWAS Treaty

The 1975 Treaty is the primary legal document that established and regulates the Community.

The Treaty did not specifically call for a monetary union, but it laid the ground for the monetary union project that was to come by:

- **Article 2:** Set out the main aims of the Community as promotion of cooperation and development in all fields of economic activity and called for the harmonisation of the monetary policies of the Community
- **Article 36:** of the Treaty provided for the harmonisation of economic and fiscal policies; and
- **Article 37:** provided for the establishment of a mechanism for settlement of accounts between Member States.



The ECOWAS Monetary Cooperation Programme

Decision A/DEC.5/6/83 of June 1983: The Authority decided to take the necessary steps to establish an ECOWAS Monetary Zone to resolve the difficulties posed by the existence of eleven currencies to the development of intra-regional trade and to promote limited convertibility of the currencies of the region.

In pursuance of this objective, the Authority adopted, at their July 1987 Summit in Abuja, **Decision A/DEC.2/7/87** establishing the ECOWAS Monetary Cooperation Programme (EMCP) to:

- implement collective policy measures aimed at achieving a harmonized monetary system and common management institutions
- Create a single Monetary Zone with a single central bank conducting a single monetary policy.



The ECOWAS Monetary Cooperation Programme (cont.)

Responsibility for the coordination and monitoring of the EMCP was resided in:

President of the ECOWAS Commission (Executive Secretariat); and
Committee of Governors of Central Banks ECOWAS Member States (Committee of West African Central Banks).

The Committee was established by Article 38 of the 1975 Treaty with a mandate to oversee the system of payments within the Community and advise the Council of Ministers on monetary matters.

Thus from the beginning of the EMCP, there was shared responsibility between the Central Banks and the Commission for its implementation



West African Monetary Agency

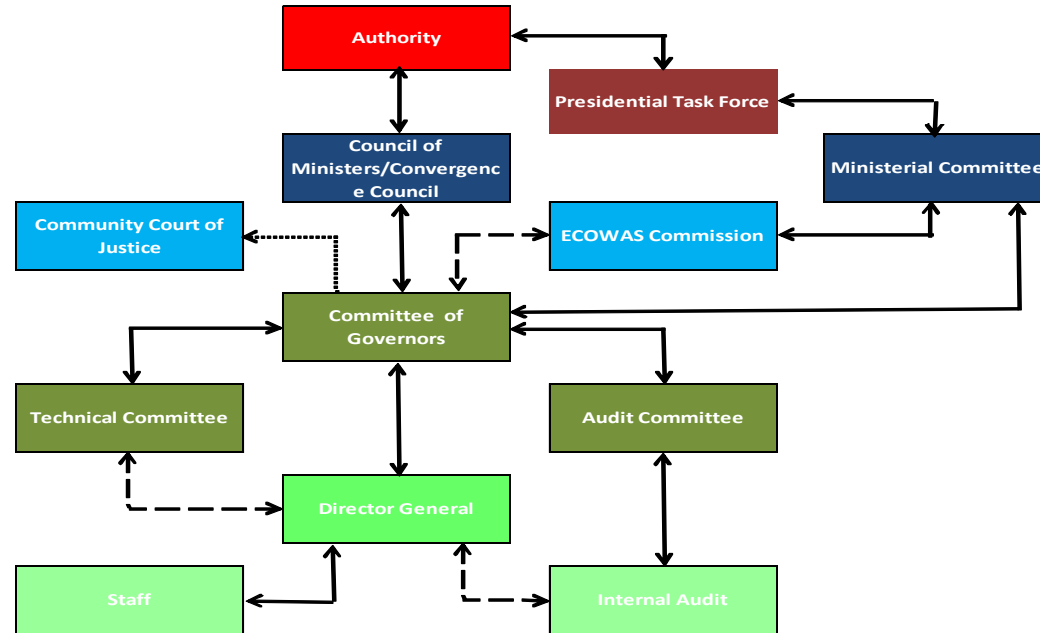
Protocol A/P.1/7/93 Relating to WAMA adopted by the Authority 24 on July 1993 established an autonomous agency of ECOWAS mandated to replace WACH and **monitor and coordinate the implementation of the EMCP**. Some of the functions of WAMA are:

- promote the use of national currencies
- encourage and promote trade and exchange liberalisation among the Member States
- enhance monetary cooperation and consultation among Member States
- facilitate the harmonisation and co-ordination of monetary and fiscal policies
- initiate and promote policies and programmes on monetary integration
- ensure the establishment of a single Monetary Zone

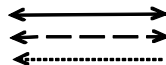


West African Monetary Agency

Corporate Governance Structure of WAMA



Delegation and Reporting
Information Flow
Referral



The Revised ECOWAS Treaty 1993

Member States resolved to achieve an economic union within a period of fifteen years following the commencement of the trade liberalization scheme which was launched on 1 January 1990.

- Member States also undertook to complete within five years following the creation of a Customs Union, the establishment of an economic and monetary union through:
 - the adoption of common policies in all fields of economic activity
 - free movement of people, goods, capital and services
 - creation of a monetary union with a single central bank and a single currency

The Revised Treaty clearly lays out the legal basis for economic and monetary union and the responsibilities of Member States and Community Institutions



The Multilateral Surveillance Mechanism

Desiring to adopt practical modalities for the organisation and implementation of multilateral surveillance, the Authority adopted **Decision A/DEC.17/12/01** directing that surveillance shall be based on the following organs:

- The **Convergence Council** composed of Ministers of Finance and central bank Governors
- The **Technical Monitoring Committee**
- A **Joint Secretariat** of WAMA and the ECOWAS Commission
- The **National Coordinating Committees**

The Mechanism required Member States to submit pluriannual plans to show how they would comply with the convergence objectives and that surveillance be based on half yearly reports on Member State economies



The Multilateral Surveillance Mechanism (cont.)

To strengthen the legal and institutional framework for surveillance, the Authority adopted **Supplementary Act A/SA.4/06/12** in June 2012 establishing a **Macroeconomic Convergence and Stability Pact**.

This was a formal undertaking by Member States to achieve the monetary union to be implemented in two stages:

- **Convergence Stage:** 1-Jan-12 to 31-Dec-16 Member states were expected to implement policies to achieve the (primary) convergence criteria by the deadline of 31 December 2016. (**Amended to 1-Jan-16 to 31-Dec-19** by Supplementary Act A/SA.01/12/15)
- **Performance, Stability and Consolidation stage:** with effect from 1-Jan-17. (**Amended to 1-Jan-20** by Supplementary Act A/SA.01/12/15) . Member States were to be expected to have achieved the objectives of the Convergence Stage and should now strengthen policy implementation in order to achieve sustainable growth.



The Multilateral Surveillance Mechanism (cont.)

Other provisions of the Macroeconomic and Stability Pact:

- Provided that the macroeconomic convergence criteria shall comprise of four primary and seven secondary criteria. These were changed to four and two respectively by Supplementary Act A/SA.01/12/15
- Required Member States to develop a convergence plan aimed at achieving the medium term convergence objectives on a five year rolling basis
- Gave the Convergence Council the authority to modify the convergence criteria
- Identified compliance with the primary criteria as the benchmark for evaluating compliance (and thus qualification to join the monetary union)
- Provided for an enforcement mechanism by mandating the Convergence Council to set a deadline for Member States to implement corrective actions to get back to compliance in case they do not comply with a primary criterion



Implementation of Surveillance

Macroeconomic Convergence

- WAMA, WAMI and the ECOWAS Commission conduct bi-annual assessments of the economies of Member States to determine if they meet the convergence criteria

Policy Harmonisation

- Monetary policy
- Exchange rate policy
- Current and capital accounts
- Banking regulations
- Statistical methodologies

In addition to meeting the macroeconomic convergence criteria, harmonisation of economic policies and practices, laws and regulations are also essential to the creation of a monetary union



Current Macroeconomic Convergence Criteria

- Primary Criteria
 - Budget deficit/GDP: $\leq 3\%$
 - Average annual inflation: $< 10\%$
 - Central Bank financing of Budget Deficit: $\leq 10\%$ of the previous year's tax revenue
 - Gross external reserves: ≥ 3 months of imports
- Secondary Criteria
 - Nominal exchange rate: stable (+/- 10%);
 - Total public debt to GDP : $\leq 70\%$;



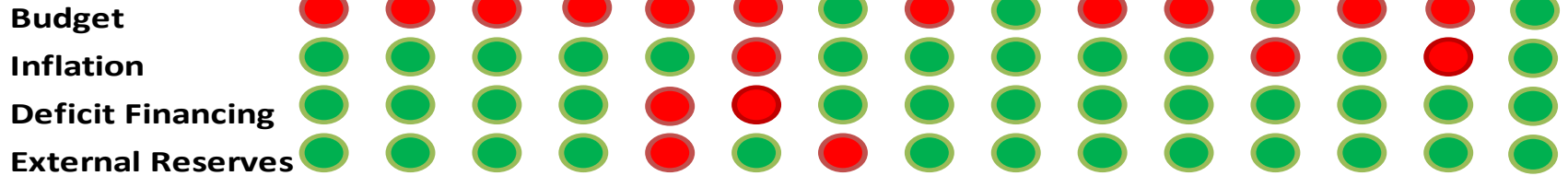
2016 Convergence: Still Some Way to go



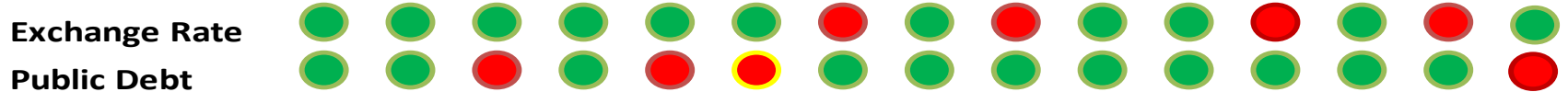
Complied with all the Criteria/Respectee tous les criteres



Primary Criteria/Critères de premier rang



Secondary Criteria/Critères de second rang



Red circle: Did not comply with criteria
N'a pas respecté les critères

Green circle: Complied with criteria
Respect des critères

Converging to a Single Currency – Assessment

- There is still a lot of work to be done to achieve sustained macroeconomic convergence
- Budget Deficit target – the most difficult to achieve
- More work needed on exchange rate policy, monetary policy framework and exchange rate mechanism
- STILL SOME WAY TO GO BEFORE MONETARY UNION



The Institutional Framework –Current Challenges

Risks	Mitigation
<p>Very ambitious Roadmap with a significant volume and pace of activities would pose a challenge for the ECOWAS institutions and the country authorities to implement on schedule. Finding common ground on exchange rate monetary policy and meeting budget deficit targets have been especially elusive</p>	<p>The Member States should strengthen policy implementation to achieve the convergence criteria and work to narrow their differences in policies and practices. The political will exhibited recently at the highest levels (Presidential Task Force) is encouraging. The implementing institutions should strengthen their capacities to conduct the activities assigned to them under the Roadmap</p>
<p>The framework for multilateral surveillance has evolved over the years with increasing levels of complexity. New bodies have been added (WAMA, WAMI, Convergence Council, Presidential Task Force). There is a need to rationalise these arrangements and strengthen collaboration between the institutions to reduce duplication and increase synergies</p>	<p>The Commission, WAMA and WAMI have agreed to prepare a single convergence report to replace the previous practice of each institution doing their own report. There are efforts to get the Convergence Council to meet more frequently and to synchronise its meetings with those of the Committee of Governors</p>
<p>Funding constraints have limited the capacity of the implementing institutions to undertake all the activities under their responsibility. In addition, the number of meetings have increased putting further pressure on financial resources.</p>	<p>Establishment of the Special Fund for Financing the Revised Roadmap Activities along the lines agreed by the Presidential Task Force at their February 2018 meeting is at an advanced stage. Consideration should also be given to using the Community Levy to fund activities under the Roadmap.</p>
<p>So far a large part of the monetary integration process has involved national authorities and their institutions. Involvement of the private sector has been limited. There is a risk of developing laws and regulations which may not be conducive to private sector activity</p>	<p>Markets participants are important to the success of the integration process. More consultations with the private sector and other stakeholders including the public is needed to ensure all views are taken into account</p>



Possible Role for the Community Parliament?

Possible legislative and oversight roles for the Parliament may include consultations on:

- choice of countries eligible to join the single currency
- preparation of legislation for the single central bank
- amendments to the Treaty that have an impact on the monetary union arrangements
- arrangements being made for the introduction of the banknotes and coin of the monetary union by Member States
- the nomination of the head of the single central bank
- framework of information flow between the prospective ECOWAS Monetary Institute and the Parliament (annual report presentation)



[Discussion]

Thank you very much for your attention

