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**PAYMENTS SYSTEM DEVELOPMENT
IN THE WEST AFRICAN MONETARY ZONE (WAMZ)**

**BY
TEMITOPE W. OSHIKOYA ***

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* Dr. Temitope W. Oshikoya is the Director General and Chief Executive Officer of the West African Monetary Institute (WAMI), Accra, Ghana. Prior to his appointment, Dr. Oshikoya has been Chief Economist of Africa Finance Corporation; Director of Research and country Operations Manager at the African Development Bank; and Economic Consultant at the World Bank. He has served as a member of Board of Directors of East African Development Bank, Uganda; African Capacity Building Foundation, Zimbabwe; Secretariat for Institutional Support for Research in Africa, Senegal; and the East African Regional Technical Assistance Center, Tanzania. A Commonwealth Scholar, Dr. Oshikoya has a PhD, MA and B.Sc (First Class Honors) degree in Economics. He is a Fellow of the Chartered Institute of Bankers, England and Nigeria; and a member of several professional associations. He has served on the editorial Boards of several international professional journals.

PAYMENT SYSTEMS DEVELOPMENT IN THE WEST AFRICAN MONETARY ZONE (WAMZ)

Background and Objectives

The WAMZ was formally launched by the Heads of State and Government of The Gambia, Ghana, Guinea, Nigeria and Sierra Leone, in December 2000, with the objective of establishing a common central bank and the introduction of a single currency. The WAMZ Agreement provided for the establishment of other institutions, including the West African Monetary Institute (WAMI), which has the primary mandate of undertaking all necessary tasks that will lead to the setting up of the West African Central Bank (WACB), and the adoption of a single currency in the Zone.

The Banjul Action Plan

In postponing the union to December 1, 2009, the WAMZ authorities adopted an expanded Work Programme and an Action Plan for its delivery under the Banjul Declaration and Action Plan (BAP) of May 2005.

The BAP stipulated a ten-point work programme to ensure a successful launch of the union on the new target date. The core activities in the BAP and the time-frame specified include: the achievement of macroeconomic stability and convergence in key macroeconomic indicators; establishment of Customs Union; development of a zonal payments and settlement system for cross-border transactions; and statistical harmonization and database development. Others are: financial sector integration; ratification of the WAMZ legal instruments; activation of the WAMZ institutions; sensitization; preparations towards the introduction of the eco and zonal programmes for promoting regional development and integration (Table 1).

Integrated Payment System

Large-value transfer systems supporting the interbank markets are the main arteries of a nation's payment and financial system. They provide the ultimate settlement vehicle for important cross-border markets in multiple currencies, and are key infrastructural requirements for implementing a single monetary policy. They permit monetary policy impulses to be transferred quickly and widely throughout the union.

In the bid to launch a strong and stable Monetary Union, WAMI in collaboration with the WAMZ member countries on July 3, 2008, secured a grant of US\$23 million from the African Development Fund (ADF) for the modernization of the payment systems in The Gambia, Guinea and Sierra Leone. This is not only to bring them to the same level as those in Ghana and Nigeria in order to facilitate the harmonization of the payment systems in all the five member countries, but also to develop an integrated payments system in the WAMZ for the implementation of a single monetary policy and cross-border funds transfer. The Protocol of Agreement between the ADF and WAMI was signed on August 4, 2008 and the key component of the payments system for development in the three countries is the Real-Time Gross Settlement (RTGS) system.

From a macroeconomic perspective, the RTGS system greatly facilitates the establishment of short-term money markets that reflect nationwide/zone-wide monetary conditions at a particular time. Such markets, in turn, provide more accurate information about the current

state of nationwide/zone-wide monetary conditions. The Convergence Council, therefore, placed a high priority on the RTGS system.

Mindful of the need for an efficient and sustainable monetary union, the WAMZ Convergence Council in May 2005 directed that large value payment (RTGS) systems should be implemented by all member Central Banks and for the WACB.

- Currently, Ghana and Nigeria have established RTGS systems and have largely automated their retail payment systems.
- The existing payment systems in The Gambia, Guinea and Sierra Leone are manual in operation, and therefore, cannot participate in any meaningful cross-border payments and settlement. Though, the automation of the payment systems has commenced, they would not be ready until **2011**.
- The WACB central hub to facilitate an efficient monetary policy implementation, irrespective of the structure of the WACB to be adopted, has not commenced and may not be ready until **2012**.
- The connectivity of the respective domestic RTGS systems to the WACB central hub, to facilitate cross-border transfers and implementation of a single monetary policy is projected for **2012**. In effect, the respective RTGS systems of the member countries, ACH and ATMS/national switches would remain stand-alone systems until about **2012**.

The most prominent of the challenges is the establishment of an integrated payment system/WACB RTGS system, before the launch of the monetary union. Although significant progress has been made towards development of a zonal payments system (adoption of common payments system by all the WAMZ member countries, common cheque standard, common Automated Cheque Processing System, adoption of the legal framework, WAMZ Payment Statute and uniform e-banking guidelines) the essential technical requirements for launching and sustaining a monetary union needs to be commenced as soon as possible.

With a grant of US\$23 million from the ADF, the modernization of the payment systems in The Gambia, Guinea and Sierra Leone has since commenced. The components for development in the three countries include the RTGS, Automated Clearing House, Central Banking Application, Securities Settlement System and infrastructure upgrade. WAMI is the Executing Agency of the project.

Opportunities.

The opportunities arising from an integrated regional payments system in the WAMZ are exciting and they include facilitation of comparability between markets in the region as different strands of business will move closer in terms of timing, price and payment type and better opportunities to share fewer infrastructure systems. The West African Monetary Institute is therefore committed to building a regional payments system, the daunting challenges of achieving it within a short period of time notwithstanding.

Table 1: Banjul Action Plan

	Programme	
	Macroeconomic Convergence	Attainment of all FOUR
	Establishment of a Customs Union	Compliance with ETLS
	Development of a Zonal Payments & Settlement System for Cross-border Transactions	Establishment of RGTS in Sierra Leone
	Statistical Harmonization & Capacity Development	(i) National Accounts: a (ii) CPI: (a) adopt COICOP (b) Introduce (c) Zone-wide
	Financial Sector Integration	Enact Legal Instruments (i) Full Capital Account (ii) Cross Listing of Stocks (iii) Regional Currency (iv) Harmonization of Exchange Rates (compliance with B

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