



**MEETINGS OF THE WEST AFRICAN MONETARY ZONE
(WAMZ)
BANJUL, THE GAMBIA
NOVEMBER 3 – 7, 2008**

WAMZ/CG/20

**20TH MEETING OF THE COMMITTEE OF
GOVERNORS OF CENTRAL BANKS
OF THE WEST AFRICAN MONETARY ZONE (WAMZ)**

FINAL REPORT

**BANJUL, THE GAMBIA
6TH NOVEMBER 2008**

**REPORT OF THE 20TH MEETING OF THE COMMITTEE
OF GOVERNORS OF CENTRAL BANKS
OF THE WEST AFRICAN MONETARY ZONE (WAMZ)
HELD AT BANJUL, THE GAMBIA**

NOVEMBER 6, 2008

I. INTRODUCTION

1. The 20th Meeting of the Committee of Governors of Central Banks of the West African Monetary Zone (WAMZ) was held at the Kairaba Hotel, Banjul, The Gambia to consider the Report of the 26th Meeting of the Technical Committee.

2. All the Member States, the ECOWAS Commission and WAMI were represented at the Meeting. Liberia, West African Bankers Association (WABA), West African Institute for Financial and Economic Management (WAIFEM), West African Monetary Agency (WAMA), West African Economic and Monetary Union (WAEMU), Banque Centrale des Etats de l'Afrique de L'Ouest (BCEAO), African Business Round Table (ABR), African Finance Corporation (AFC), participated in the Meeting as observers. The list of delegates is attached as Appendix B.

II. OPENING

3. In his opening address, the outgoing Chairman of the Committee of Governors, Dr. Samura Kamara, Governor, Bank of Sierra Leone welcomed fellow Governors and all delegates to the Meeting. He extended his condolences to the Government and people of Ghana on the passing away of the Ghanaian Minister of Finance, Hon. Kwadwo Baah-Wiredu, (M.P). He asked the Meeting to observe a minute silence in his memory.

4. He noted that the Meeting was being held at the time of the global financial crisis as well as energy and food crises. The immediate effects of these crises on the WAMZ have been higher inflation and shortage of foreign exchange in some countries. He called on the member countries to adopt appropriate policies and programmes to deal with the problems in order to ensure macroeconomic stability in the WAMZ.

5. Governor Kamara informed the Meeting that the task of recruiting a new Director General for the West African Monetary Institute has been completed and the reorganisation of the Institute has been carried out. Furthermore, he noted that the host countries of the WAMZ institutions have given their commitment to make available the relevant structures for operationalising the institutions at the appropriate time.

6. He noted that significant strides had been made since Governors last met in Freetown on June 18, 2008. These include the endorsement and launch of the ADF grant of UA 14 million (US\$23.0 million) for the development of the Payments Systems in The Gambia, Guinea and Sierra Leone. The Committee's directive that the proposed structure of the WACB be reviewed and an appropriate capital base determined for the Bank has been undertaken by WAMI, in collaboration with a consultant. The proposed visit to the member countries to facilitate the ratification and domestication of WAMZ statutes and ensure speedy activation of key WAMZ institutions has been undertaken by the DG of WAMI, the Chairman of Council and the Chairman of the Committee of Governors. The visit has resulted in the WAMZ Authorities reaffirming their commitment to the programme. He noted that the proposed joint World Bank/WAMI study on Financial Sector Integration in the WAMZ plus Liberia has also been initiated.

7. He expressed appreciation to The Gambian Authorities for hosting the Meetings and for the warm reception and hospitality extended to participants. He assured the incoming Chairman of his total support and thanked the Technical Committee and the WAMI team for the quality of work done. He wished the Committee successful deliberations.

8. In his address to the Committee, the Director General of WAMI expressed appreciation for the opportunity accorded to him to serve as the DG of WAMI. He noted that the global economy is facing a Triple F-- financial, food, and fuel—crises, with significant and potential impacts on member countries of the WAMZ. This has contributed to volatility of exchange rates and capital markets. Thus, recent gains in attracting foreign direct investment, remittances, portfolio inflows and aid could be reversed. The main challenge, he emphasised, is to maintain growth momentum with fiscal resilience and macroeconomic stability within the WAMZ.

9. He called on the Committee of Governors to objectively consider the report of the Technical Committee and offer the necessary guidance for the programme.

III. ELECTION OF CHAIRMAN

10. Mr. Momodou Bamba Saho, Governor, Central Bank of The Gambia was elected Chairman of the Committee of Governors.

11. In welcoming distinguished delegates to the Meeting, the host Governor, Mr. Momodou Bamba Saho thanked the out-going Chairman, Governor Samura Kamara, for the able leadership during his tenure as Chairman and expressed optimism that with the continued support of fellow Governors he would be able to move the WAMZ project forward. He noted that the major industrialised countries are experiencing significant economic slow down with potentially severe impact on developing economies, including the WAMZ. He called on the countries to implement the Banjul Declaration Action Plan so that the process of economic and monetary integration would be irreversible.

IV. ADOPTION OF THE AGENDA

12. The Agenda was adopted as presented. (See Appendix A)

V. CONSIDERATION OF THE REPORT OF THE 26TH MEETING OF THE TECHNICAL COMMITTEE

13. The report of the 26th Meeting of the Technical Committee was presented by the Chairman of the Technical Committee, Mr. Mod A. K. Secka, Permanent Secretary, Department of State for Finance and Economic Affairs, The Gambia. The main highlights of the report are presented below.

***MACROECONOMIC DEVELOPMENTS AND CONVERGENCE REPORT
AS AT JUNE 2008***

14. Despite the on-going crisis in the international commodity and financial markets, macroeconomic performance in the WAMZ was largely satisfactory. Real GDP growth remained strong, underpinned by robust growth in the agricultural sectors of member countries. Inflationary pressures, however, surged on account of the global energy and food price shocks. In some countries, fiscal outcome deteriorated, partly reflecting the fiscal costs of the measures implemented to mitigate the burden of the severe external sector shocks.

15. As at the end of June 2008, The Gambia sustained the four primary criteria achieved at the end of 2007. Nigeria regressed from four to three, missing the inflation criterion at the end of the period under review. Guinea and Sierra Leone sustained their performance of two primary criteria respectively. Ghana also receded to one criterion from two, narrowly missing the reserves month of import cover.

16. On the other aspects of the Banjul Action Plan, although a lot of progress has been registered, important challenges remain. With respect to Financial Sector integration, only The Gambia has achieved full capital account liberalisation. The remaining four countries are at various stages of liberalising their capital accounts. Quoting of WAMZ currencies has been formalised in some countries but the level of trading has remained low. Notable progress was also being registered in the area of Payments System harmonisation. Cross-listing of stocks and the harmonisation of banking supervision processes are still underway. The ratification of the Legal instruments has lagged behind, while financial contributions to the project (WACB and SCF) remain largely outstanding. In the area of the common market programme, there are still outstanding issues relating to the free movement of goods and services.

REPORT ON OPERATIONALIZING THE WAMZ INSTITUTIONS

17. The Report of the Consultant on the Structure of the WACB was considered. Two structures (Unitary and Federal), including the factors that should be taken into account in the design and start-up of the WACB were outlined. The highlights of the report include:

- In a unitary structure, it is the countries that participate in the governance of the WACB and not necessarily the heads of the branches, unless they are nominated by their national governments
- Under a unitary system, the national central banks (NCB) will cease to exist and would operate as branches that will perform tasks assigned to them by the WACB. The choice of unitary structure has a wide spectrum that can range from being highly centralised to highly decentralised.
- Starting from the current status quo of WAMZ central banks, the more centralised the WACB, the higher the start-up and reorganisation costs.
- A highly decentralized unitary structure closely resembles the federal structure “but with the added burden of a centralised budgetary process and more complex human resource management...”
- The unitary structure that balances political and economic factors may be difficult to achieve as there would need to be clear consensus among the member countries as to the degree of decentralisation desirable.
- Although cost cutting is possible in a highly centralized unitary structure through specialisation of branches in particular functions, this may not happen as there is likely to be resistance to cutting down on staff at the branches.
- Under a federal structure, the current NCBs will continue to exist but will surrender their sovereignty to a central authority, the WACB, while retaining some residual powers of central banking.
- Under the federal system, the headquarters of the WACB system can be kept small in manpower size with no major re-organization required of the national central banks from their present forms.
- The unitarily structured WACB could benefit from savings in total central bank cost through specialisation in the provision of services by branches in their areas

- of competence (credit to government, credit to banks, open market operations, and excess foreign exchange reserves management, etc.).
- Reserves pooling can be facilitated through the purchase of Eco by member states in foreign exchange.
 - The report concluded that the more centralized the unitary structure, the more difficult it can be to create the incentives for the best and the brightest to give their best to the WACB.
 - To get started would require decision making that takes into account critical elements of the political economy context, the level of hard currency backing for the common currency and ensures that exchange rates reflect what will prevail in open and well functioning markets. Each country should be allowed to decide its own change over rate.

Report by the Experts Group on the Financial Implications of Operationalizing the WAMZ Institutions

18. The paper presented indicative costs of activating the WAMZ institutions i.e. WACB, WAFSA and WAMZ Secretariat. The paper highlighted the recurrent and capital costs of establishing the institutions as follows:

- For the activation of the WACB, total expenditure under the unitary system was estimated at US\$2.98 billion, of which, recurrent expenditure, including the cost of currency production and OMO, amounted to US\$2.86 billion whilst capital expenditure was US\$123.0 million.
- For the federal system, total expenditure at the headquarters was estimated at US\$26.22 million, comprising recurrent expenditure of US\$11.55 million and capital expenditure of US\$14.67 million. These estimates are based on the assumption that each National Central Bank will bear the cost of printing the Eco currency and OMO.
- The start-up costs for the WAFSA and WAMZ Secretariat were estimated at US\$9.75 million and US\$7.01 million, respectively.

19. Governors noted the draft reports on the structure of the WACB and the cost implications as outlined in the Technical Committee report, directed that the final

version of the report should be sent to member countries for their comments, which will be discussed at the extra-ordinary Meeting of the Committee of Governors to be held in January 2009.

FINANCIAL SECTOR INTEGRATION AND TRADE ISSUES

- **Revised Harmonized Guidelines on Electronic Banking**

20. The Revised Harmonised Guidelines on Electronic Banking was considered. The revised paper noted the views expressed in the earlier presentation at previous Meetings, especially the consumer protection rights and the observation that electronic products were being rapidly introduced in all the member countries. The Governors adopted the revised paper on Harmonised Guidelines on Electronic Banking for recommendation to the Convergence Council.

- **Status Report on Zonal Payments System for the WAMZ**

21. The Report highlighted the recent developments in the process of developing and harmonising payments system in the WAMZ to include the grant of US\$23 million from the AfDB for the implementation of the Payments System in the three countries; The Gambia, Guinea and Sierra Leone. It also discussed the WACB Payment Systems Infrastructure.

22. The Governors after deliberations decided that the implementation of the payments system for the countries listed above should be expedited. The Governors also decided that WACB payments system should be held back until the type and structure of central bank is determined. The Governors advised WAMI to, in the mean time, focus on the implementation of the Payments System for The Gambia, Guinea and Sierra Leone.

- **Report of the Meeting of the ECOWAS-WAMI Joint Task Force on Trade related Issues of the Monetary Integration Programme of the WAMZ**

23. An ECOWAS/WAMI Joint Task Force, as directed by the Convergence Council, has been established to address the trade related issues. The inaugural Meeting was held on October 2, 2008 in Accra, Ghana during which the Terms of Reference and

a road map to address the issues were adopted and prepared, respectively. It is expected to meet in December 2008 to further streamline the agreed work programme. The Governors noted the report and urged ECOWAS to redouble efforts at trade integration.

LEGAL ISSUES

- **Report of the Meeting of the Legal and Institutional Issues Committee (LIIC) on Draft Banking Statute and Draft Fiscal Responsibility Act**

24. The Meeting of the Legal and Institutional Issues Committee (LIIC) on the draft Banking Statute and Draft Fiscal Responsibility Act took place in Accra, Ghana. The report on the draft banking statute focused on the need to define Islamic Banking, off-shore banks and off-shore banking business and incorporate such concepts and definitions in the statute in order to ensure conformity with recent developments in the banking legislations of member states.

25. The Governors adopted the draft Banking Statute for recommendation to the Convergence Council.

26. The Draft Fiscal Responsibility Act was considered. The Governors agreed that the Act was necessary and therefore recommended it for adoption in Member States to suit local conditions.

CURRENCY ISSUES

- **Revised WAMZ ERM**

27. The Governors endorsed the Technical Committee recommendation that the existing W-ERM II be retained while further studies on the mechanism would be undertaken by WAMI in light of the recent global economic and financial developments.

ADMINISTRATIVE ISSUES

- **WAMI's Work Programme and Budget for Year 2009**

28. WAMI's Work Programme and Budget for 2009 was presented to the Technical Committee. The budget, presented on the assumption that 2009 would be the transition year to monetary union, proposed a total expenditure of US\$4,752,102.00 compared to US\$4,172,970.00 in 2008. The increase was explained by the additional cost of implementing the Committee of Governors and the Convergence Council decisions relating to repatriation of non-central bank staff of WAMI should the project end in 2009, hosting of Heads of State Summit, and reimbursement of Ghana for the recruitment of a new Director General.

29. The Committee of Governors requested for details of the increases in the 2009 budget, and decided that WAMI should continue operating on the basis of the 2008 budget, while the proposed increases will be considered at the extra-ordinary Meeting that will be convened in January 2009.

VI. OBSERVATIONS

30. Following the presentations, the following observations were made:

- Governors noted some slippages in the macroeconomic performances of some of the WAMZ countries during the first half of 2008 partly due to current global financial, fuel and food crises. Consequently, it would be difficult for some countries to meet some of the convergence criteria by end December, 2008.
- Governors noted that although inflation remains a serious downside risk, reform measures were being put in place by member countries to address the external shocks arising from the high and volatile world crude oil and food prices. However, indications are that some WAMZ countries might achieve single digit inflation by the end of 2008.
- Governors directed that WAMI should utilise the weighted average deposit rate in the assessment of the positive real interest rate criterion instead of the minimum savings rate currently utilised.

- Governors noted the ADF grant for the development of the Payments System infrastructure in the Gambia, Guinea and Sierra Leone and called for expedited action in its implementation.
- Governors underscored the importance of ratifying and domesticating the WAMZ Statutes as well as the need for timely payment of financial contributions by member countries as a signal of political commitment.
- Governors noted the challenges in the enforcement of the ECOWAS trade-related protocols.
- Governors noted the amendments to the Banking Statute to reflect current developments in the financial system in the WAMZ.
- Governors acknowledged the guidelines for electronic banking in the WAMZ.

VII. RECOMMENDATIONS FOR CONSIDERATION BY THE CONVERGENCE COUNCIL

31. The Convergence Council is hereby invited to:

- Adopt the report on Macroeconomic developments in the WAMZ during the first half of 2008.
- Adopt the report on the Status of Implementation of the Banjul Declaration Action Plan highlighting the need for coordinated strategies to stabilise the economies as well as make progress towards convergence.
- Approve the convening of Heads of State Summit in the second quarter of 2009.
- Urge Member States to intensify efforts to protect the financial sector from the current global financial crisis.
- Facilitate the attainment of the fiscal convergence criteria which has remained elusive and improve fiscal governance generally within the WAMZ. Council should approve the adoption of the Fiscal Responsibility Act in conformity with their local conditions.
- Approve and adopt measures to sensitise commercial banks and bureaux de change to participate in the Regional Currency Convertibility arrangements through quoting of WAMZ currencies.
- Urge Member States to expedite the ratification of legal instruments.

- Approve and adopt the draft Banking Statute for the WAMZ.
- Direct WAMI to conduct further study on the WAMZ ERM.
- Approve and adopt the revised Harmonised Guidelines on Electronic Banking.
- Direct WAMI to operate for 2009 on the basis of the 2008 budget pending the approval of the proposed increases in 2009 budget at the extra-ordinary Meeting of Convergence Council in January 2009.

VIII. ANY OTHER BUSINESS

32. There was no issue for discussion on this agenda item.

IX. VOTE OF THANKS

33. The vote of thanks was delivered by Dr. (Mrs) Sarah Alade, Deputy Governor, Central Bank of Nigeria. She, on behalf of her colleague Governors, thanked the Authorities of The Gambia for the warm reception and excellent facilities made available to the delegates. She also congratulated Governor Bamba Saho for his assumption of the Chairmanship of Committee of Governors while wishing him successful tenure at this crucial juncture of the WAMZ programme. She expressed her profound appreciation to the Technical Committee, Director General of WAMI and his staff for the quality of the documents presented during the Meeting. Similar sentiments were extended to delegates for cordial and candid discussions.

X. CLOSING

34. The Chairman of the Committee, Mr. Momodou Bamba Saho in his closing remarks, thanked delegates for coming all the way to discuss ways and means of moving the integration process forward. He thanked them for their understanding, patience and cooperation during the deliberations. He once again expressed his gratitude to Dr. Samura Kamara the outgoing chairman for his outstanding leadership of the Committee of Governors during his tenure and for his valuable contributions during the Meeting. He expressed the optimism that for the period ahead, concrete and irreversible steps will

be taken towards the actualisation of the single currency project. He wished delegates an enjoyable stay in The Gambia and safe journey back to their respective destinations.

XI. DATE AND VENUE OF THE NEXT MEETING

35. The date and venue of the next Meeting of the Governors will be communicated to member states in due course.

**DONE IN BANJUL, THE GAMBIA
ON THE 6th DAY OF NOVEMBER, 2008**

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**MR. MOMODOU BAMBA SAHO,
GOVERNOR, CENTRAL BANK OF THE GAMBIA
AND CHAIRMAN COMMITTEE OF GOVERNORS OF THE WAMZ**