

WAMZ/TC/10

THE TENTH MEETING OF THE  
TECHNICAL COMMITTEE OF THE  
WEST AFRICAN MONETARY ZONE

FINAL REPORT

FREETOWN, SIERRA LEONE  
APRIL 8-9, 2002

**DRAFT REPORT OF THE TENTH MEETING  
OF THE TECHNICAL COMMITTEE OF THE  
WEST AFRICAN MONETARY ZONE**

**I. INTRODUCTION**

1. The 10<sup>th</sup> Meeting of the Technical Committee of the West African Monetary Zone (WAMZ) was held from April 8 – 9, 2002 in the Bank of Sierra Leone Complex, Kingtom, Freetown. The meeting was convened to examine the documents prepared by the West African Monetary Institute (WAMI) on the WAMZ programme, the findings of which would be presented to the Committee of Governors and the Convergence Council for consideration during April 10– 12, 2002 in Freetown.

**II. ATTENDANCE**

2. The following Ministries, Central Banks and other Institutions attended the meeting.

**THE GAMBIA**

- Dept. of State for Finance and Economic Affairs;
- Dept. of State for Trade, Industry and Employment; and
- Central Bank of The Gambia.

**GHANA**

- Ministry of Economic Planning and Regional Cooperation;
- Ministry of Finance;
- Ministry of Foreign Affairs;
- Ministry of Trade and Industry;
- Ghana Statistical Service; and
- Bank of Ghana.

**GUINEA**

- Ministère de l'Industrie, du Commerce et des PME ;

- Ministère de l'Economie et des Finances ;
- Secrétariat d'Etat à la Coopération ;and
- Banque Centrale de la République de Guinée.

#### **NIGERIA**

- Ministry of Commerce;
- Ministry of Cooperation and Integration in Africa;
- Ministry of Finance;
- Ministry of Foreign Affairs; and
- Central Bank of Nigeria.

#### **SIERRA LEONE**

- Ministry of Finance
- Ministry of Development and Economic Planning;
- Ministry of Trade, Industry and State Enterprises;
- Ministry of Foreign Affairs and International Cooperation;
- Ministry of Justice; and
- Bank of Sierra Leone

#### **WEST AFRICAN MONETARY INSTITUTE**

#### **ECOWAS SECRETARIAT**

#### **OTHER INSTITUTIONS**

- BCEAO;
- West African Monetary Agency;
- West African Institute for Financial and Economic Management;
- International Monetary Fund;
- African Development Bank;

3. The list of participants is annexed to this Report.

### III. OPENING

4. In an opening statement, Mr Frank Ofei, Director of Economic Policy of ECOWAS Secretariat, on behalf of the Executive Secretary, Dr Mohamed Ibn Chambas, welcomed delegates to the meeting. He noted that in spite of the tight schedule of the WAMZ project, the member countries were equal to the task of ensuring its success. Reviewing the items on the Agenda, he noted that the attainment of the convergence criteria and multilateral surveillance were critical for the success of the WAMZ programme. He was happy that the programme was on course and regular consultations were being held between the Secretariat, WAMA and WAMI. He remarked that this has been very useful in the progress that had been made so far. He thanked WAMI for the high quality of its work and formally welcomed delegates to the meeting.

5. Mrs. Kona Koroma, Development Secretary, Ministry of Development and Economic Planning, on behalf of the Minister, Dr. Kadi Sesay welcomed delegates to Freetown. She expressed her appreciation to ECOWAS and the international community for the support given to the people and Government of Sierra Leone during its trying period. She observed that the holding of the meeting in Sierra Leone at this point in time was also a sign of solidarity with the people of Sierra Leone. She stated that Sierra Leone was very committed to the WAMZ programme and urged countries to work assiduously towards achieving the stipulated macroeconomic convergence criteria. She reviewed the performance of member countries in 2001 and noted that more effort was needed to ensure that member countries satisfy the stipulated criteria within the scheduled period.

6. Alhaji (Dr.) Abdul Wahab Alhassan, outgoing Chairman of the Technical Committee, moved the vote of thanks. He expressed his appreciation for the cooperation extended to him during his tenure and urged members to continue with the same spirit.

#### **IV. ELECTION OF CHAIRMAN**

7. The Committee elected Dr. Samura Kamara, Financial Secretary, Ministry of Finance of Sierra Leone as Chairman of the meeting.

#### **V. ADOPTION OF THE AGENDA**

8. The following Agenda was adopted for the meeting:

1. Opening
2. Election of Chairperson
3. Adoption of the Agenda
4. Consideration of Various Reports of WAMI on:
  - (a) Policy Issues
  - (b) Operational Issues
  - (c) Legal Issues
  - (d) Administrative Issues
5. Any Other Business
6. Adoption of the Report
7. Closing

#### **VI. CONSIDERATION OF VARIOUS REPORTS OF WAMI**

9. Highlights of deliberations were as follows:

##### **A. POLICY ISSUES**

##### **Macroeconomic Developments and Convergence Report for 2001**

10. WAMI presented the highlights of the report Ref: WAMI-IMAO/ODG/CC.7/01, earlier circulated to participants. The report reviews the macroeconomic developments and status of convergence by WAMZ Countries in 2001. During fiscal 2001, economic policy in the WAMZ countries was largely in response to the negative external shocks experienced by most of them in 2000. Specifically, fiscal adjustment was the focus of

macroeconomic policy and was aimed at slowing down monetary growth and inflation, as well as improving growth performance. Macroeconomic outcomes in the zone were generally in the expected directions. But there were a few slippages in some of the countries, especially in regard to higher inflation, rising fiscal deficits and significant draw down of external reserves. With regard to macroeconomic convergence, all the countries met the criterion on central bank financing of fiscal deficit, while three countries met the criterion of single digit inflation. Two countries met the stipulated criterion on the minimum level of external reserves, while only one country met the criterion on fiscal deficit/GDP ratio. However, given that the stipulated convergence criteria for 2002 – 2003 are more stringent than for 2001, it is evident that all the countries would need to strengthen their efforts towards achieving the terminal criteria. The report recommended sustenance of implementation of national budgetary measures, programmes with the multilateral institutions and WAMI's policy package approved in July 2001, the important elements of which are restated in the document.

11. The Technical Committee adopted the Convergence Report for 2001 and :

- (i) noted the slight improvement in macroeconomic performance and compliance with the convergence criteria, but observed that all the countries should work harder in terms of their policy adjustments so as to meet the criteria at the target date of 2003;
- (ii) reviewed the convergence criteria and noted some conceptual inconsistencies in some performance benchmarks, namely: inflation and Central Bank financing of government budget deficit. Accordingly, the Committee requested WAMI to further examine the causes of rising inflationary pressures in member countries, in a period when budgetary prudence was observed to have improved in member countries.

- (iii) emphasised the need for member states to ensure consistency in the data supplied to WAMI so as to facilitate comparability and the credibility of the analysis; and
- (iv) directed that, after the Report was finalised, it should be forwarded to member countries by WAMI. As in the past, WAMI would collaborate with the member countries to ensure that the necessary adjustments are made so as to enhance their macroeconomic performance and convergence.

### **Operational Manual of the WAMZ Exchange Rate Mechanism (ERM)**

12. The highlights of the manual on the WAMZ ERM (Ref: WAMI-IMAO/ODG/CC.7/02) were presented by WAMI. The manual contains guidelines for the operation of the mechanism and are derived from the approved proposals of the primary document (Ref: WAMI-IMAO/ODG/CC.6/04) discussed in December 2001. The manual is for the information of the Committee. It should be noted that the ERM effectively took-off on April 1, 2002 in line with the Decision of the Authority of Heads of State and Government in Dakar, Senegal, in December 2001.

13. The Technical Committee adopted the report as presented, noting that the fluctuation band of  $\pm 15$  percent would be reviewed after six months in line with the decision of the Convergence Council in Dakar in December 2001. Similarly, WAMI was advised to prepare periodic reports on the status of the ERM.

### **Proposals on Introduction of ECO Unit of Account**

14. The highlights of the document Ref: WAMI-IMAO/ODG/CC.7/03, were presented by WAMI. The aim of the paper is to introduce the concept of an ECO Unit of Account, which is necessary to ensure a smooth changeover from national currencies to the common currency, ECO which is the name approved by the Convergence Council. The name will be changed when

there is a new one under the single ECOWAS currency programme. For consistency with the WAMZ ERM which took-off on April 1, 2002, the value of ECO will be set at par with the US dollar. Thus, the values of national currencies at the end of March 2002 would become the central parity rates in terms of US dollar as well as in ECO. This arrangement will be the basis of a virtual currency system in the zone before the physical introduction of the common currency.

15. The Technical Committee noted the proposal and requested that it should be further developed by WAMI with more details for the consideration of the Committee.

### **Implications of Pooling of External Reserves by the WACB**

16. WAMI presented the thrust of the document, Ref:WAMI-IMAO/ODG/CC.7/04, which had earlier been circulated. The paper critically examines the implications of full pooling of external reserves in the zone for the conduct of monetary policy. The main paper on reserves management presented by WAMI in December 2001 examined the implications of partial pooling of reserves. When reserves are fully transferred to the WACB at its inception, the monetary policy objectives of the WACB would be better attained, while there would be sufficient reserves to provide adequate backing for and defence of the external value of the common currency. The full pooling of the reserves would result in higher average yield on reserves placement, but the WACB would have to settle member countries' obligations unless these are taken into account before the reserve transfer and the WACB must balance the need for safety and income in its investment of the reserves. The paper cautions on the monetisation of external reserves, which can induce high monetary expansion. This is particularly the case after the initial transfer of reserves, which had already been monetised. Subsequent reserve accretions should be properly managed by the WACB.

17. The Technical Committee took note of the findings of the Study and recommended it for presentation to the Committee of Governors.

Nevertheless, the Committee agreed that WAMI would need to further examine the full implications of total pooling of reserves, including the issue of contingent liabilities of member countries if external reserves were to be fully transferred to the WACB. Also, the Committee requested WAMI to integrate the basic elements of its earlier document on the partial pooling of reserves.

### **Institutional Framework for Banking Supervision in the WAMZ**

18. Highlights of the document, Ref:WAMHMAO/ODG/CC.7/05, earlier circulated to participants were presented by WAMI. The purpose of the paper is to define the institutional framework for banking supervision in the WAMZ. The need for a strong supervisory system for the financial sector is the compelling evidence that effective implementation of monetary policy requires a sound and safe financial sector. The paper reviews various arrangements for prudential supervision. The traditional approach, which warehouses the function in the Central Bank, seems to be giving way to the externalised approach, which creates a separate institution for the function. There are other approaches, which combine elements of the two approaches. The paper notes that the Central Bank's interest must be satisfied in whatever arrangement is practised. It however recommends the externalised approach for the WAMZ. This has to evolve based on the increasing sophistication of the financial markets and monetary management regime. The recommended preparatory activities include the setting up of a Financial Services Committee similar to the UMOA Banking Commission to be chaired by the President of the WACB and will undertake and implement banking and financial regulation with other supervisory agencies. An explicit deposit insurance scheme is also recommended for the zone.

19. The Technical Committee adopted the Study Report and recommended it for the consideration of the Committee of Governors. It endorsed the setting up of the Financial Services Committee and the explicit Deposit Insurance scheme as a long-term goal.

## **Status Report on the Adoption of the IMF GDDS by Countries in the WAMZ.**

20. WAMI outlined the highlights of the Report, Ref:WAMI/MAO/ODG/CC.7/07, the aim of which is to find out how far the countries of WAMZ have adopted the IMF GDDS as earlier directed by the Convergence Council. The Report indicates that only The Gambia has so far adopted the system, while the other countries of the zone are at various stages of subscribing to the system. As there are some requirements for membership of the system, the Report proposes that the remaining four countries involved should be given up to the end of the third quarter of 2002 to complete those requirements.

21. The Technical Committee adopted the report and urged all the other member countries to subscribe to the system by the end of September 2002 as recommended by WAMI.

## **B. OPERATIONAL ISSUES**

### **Contributions to the Stabilization and Cooperation Fund (SCF)**

22. WAMI presented the highlights of the document, Ref:WAMI/MAO/ODG/CC.7/07 which had earlier been circulated to participants. In accordance with the decision of the Authority in Dakar, Senegal in December 2001, member countries were expected to have paid up their contributions to the first instalment of the capital of the SCF by February 28, 2002 to enable the operations of the Fund take-off on March 1, 2002. The second instalment would be due by September 30, 2002. No member country has to date paid her contribution to the first instalment of US\$50 million. WAMI has however taken steps to contact the External Fund Manager (ADB), considered the administrative structure for the Fund's operations and opened an interim bank account at the Bank of Ghana to receive the contributions. WAMI is proposing that the member countries' contributions be made not later than April 15, 2002.

23. The Committee noted that no member country has made its contribution to the first tranche of the Fund and urged all of them to do so immediately, given that the earlier deadline of February 28, 2002 had already lapsed.

### **Progress Report on the National Sensitisation Programme**

24. WAMI presented the highlights of the report, Ref: WAMI-IMAO/ODG/CC.7/08, which had been circulated to participants. The report is an up-date on the activities carried out in member countries on the National Sensitisation Programme on the WAMZ since October 2001. Activities carried out by WAMI included follow-up actions on the meeting of Coordinators of National Sensitisation Committees in Conakry, Guinea in October 2001 and organisation of seminars and workshops to raise the level of awareness on the WAMZ. In the member countries, the inauguration of the NSC in Nigeria on March 15, 2002, completed the setting up of the Committees in all the member countries. The launching of the National Sensitisation Programmes in Sierra Leone, Nigeria and The Gambia during the first quarter of 2002 showed that only Ghana and Guinea were yet to launch the programme officially. The report urges member countries to redouble their efforts in implementing their programmes.

25. The Technical Committee expressed satisfaction at the progress made and urged the two countries (Ghana and Guinea) that have not officially launched the National Sensitization Programme to do so without further delay.

### **Progress Report on Payments System Development**

26. The document Ref: WAMI-IMAO/ODG/CC.7/09, was presented by WAMI. It is a progress report on the programmes for payments system development in the WAMZ. The approved institutional framework for payments system development was recalled – the formation of a Zonal Committee on Payments Systems and a National Committee on Payments System in each country to ensure convergence of the systems of the zone

and promote an efficient cross border payments system between countries. WAMI had forwarded to the member countries the terms of reference for the two sets of Committees and requested their constitution. But no country has so far taken action. Member countries are urged to take action before April 30, 2002 so that the WAMI-BIS collaborative seminar on the subject scheduled for May 2002 can take place. Thereafter, the Committees will commence executing their mandates.

27. The Committee noted the report and called on member countries to forward to WAMI the names of two nominees each for the Zonal Committee and also to set up their National Committees on the Payments System as soon as possible. The Committee also noted the information by WAIFEM that it would be organising a Workshop on Payment System development in Banjul, The Gambia in August as its contribution to the development 2002 of the Payments System in the Zone.

### **WAMZ's Position on the Name of the Common Currency**

28. WAMI outlined the essential points of the document, Ref: WAMI-IMAO/ODG/CC.7/10, earlier circulated to members. The purpose of the paper is to develop a strategy for the WAMZ/WAMI for discussions with UEMOA/BCEAO on the name of the ECOWAS common currency. The paper gives the background to the rationale for starting the WAMZ project and the process of identifying the name of its common currency. The paper proposes that the name, ECO, which was recommended by the Convergence Council of WAMZ should be put forward during the proposed meeting(s) of experts of WAMZ and UEMOA. UEMOA and other stakeholders should also make their own proposals. The proposals may be considered by an extraordinary summit of ECOWAS by June 2002. The paper emphasises the need for a quick decision on this matter in order to accelerate the process of establishing the single monetary zone in ECOWAS. Since macroeconomic convergence and policy harmonisation are prerequisites for an effective monetary union, the WAMZ project must be sustained so as to place member countries on a solid foundation when merger talks with the UEMOA are being held.

29. The Committee adopted the paper. ECOWAS Secretariat was urged to arrange for the convening of the meeting of Experts from the UEMOA and WAMZ on the name of the ECOWAS Common currency as early as possible. The Committee noted that the selection of the name of the common currency was very critical for the sensitisation programme and therefore believed that this issue should be resolved expeditiously.

### **C. LEGAL ISSUES**

#### **Draft Uniform Central Bank Act for Member States of WAMZ**

30. The essentials of the document, Ref:WAMI-IMAO/ODG/CC.7/11, earlier circulated were presented by WAMI. The document presents uniform provisions for adoption by National Central Banks as a way of achieving harmony and consistency with the Statutes of the WACB. Earlier on, WAMI had identified significant differences between the Statutes of the WACB and the Acts of the various NCBs. Each NCB would, under the earlier proposal, have had to amend its Act to remove the differences, a process that was thought to be cumbersome. This uniform Central Bank Act should be replicated in each member country's legal framework appropriately. The functions of the NCBs vis-à-vis the WACB are spelt out, while critical features relating to the WACB statute such as primary objective, independence, prohibition of financing of government, currency issue, foreign exchange reserve management and exchange rate policy are comprehensively treated for incorporation into national laws.

31. In reviewing the draft document, WAMI's Legal and Institutional Issues Committee made the following observations and recommendations:

- (i) The NCBs are to have a dual character in the Central Bank system of WAMZ: operationally they act as branches of the WACB, while retaining their autonomy in matters of internal administration and management. The Statutes of the WACB should be amended to

reflect the exact relationship between the NCBs and the WACB.

The proposed amendment is on page 6 of the Committee's Report ;

- (ii) Owing to several structural differences, it would be difficult to achieve absolute uniformity in the Acts of NCBs. Thus, the Uniform Central Bank Act should serve as a model which member states can adapt; and
- (iii) Provisions of the Uniform Central Bank Act, which have a bearing on the relationship between the NCBs and the WACB, should be uniform and mandatory. These are spelt out on page 8 of the Report.

32. The Draft Uniform Act was noted by the Committee which directed that it be forwarded to member states for an in-depth study. The Technical Committee would reconvene early in June 2002 in Accra, Ghana, to reconsider the document before presentation to the authorities.

#### **D. ADMINISTRATIVE ISSUES AND ROUTINE REPORTS**

##### **WAMZ and the Establishment of the ECOWAS Single Monetary Zone**

33. The thrust of the document, Ref:WAMI-IMAO/ODG/CC.7/12, earlier circulated to participants was explained by WAMI. The primary aim of the paper is to draw attention to the central focus of the monetary integration process of the sub-region especially with regard to recent developments in the sub-region. These developments centred around the decision of the Summit of ECOWAS in Dakar in December 2001 which opted for a unified line of action in selecting the name of the single currency of the sub-region this year instead of waiting till 2004. While the main motive for this decision is to save cost of currency operations in the integration process, other observers had construed it to imply a return to the one-stage rather than the two-stage integration, which necessitated the initiative of the second monetary zone

project. The paper argues for sustaining the two-stage integration process as a more viable strategy for achieving the ultimate goal of the EMCP.

34. The Technical Committee noted the document and recommended it for presentation to the Committee of Governors and the Convergence Council and emphasised that the original programme of the WAMZ should be sustained.

### **Expression of Interest in Hosting of the Headquarters of the WACB**

35. The highlight of the document, Ref:WAMI-IMAO/ODG/CC.7/13 was presented by WAMI. The aim of the paper is to give a progress report on the process of identifying a location for the Headquarters of the WACB in line with the Authority's decision to finalise the process by June 2002. To this end, WAMI had written to all member countries to indicate their interests in hosting the Headquarters of the WACB. As at the end of the stipulated period, February 28, 2002, for the exercise, only Ghana had expressed such positive interest. The Republic of Sierra Leone also responded, but indicated her inability to host the Headquarters of the WACB.

36. The Technical Committee noted the expression of interest by Ghana to host the Headquarters of the WACB. The Committee decided to pass on this information to the Governors and the Convergence Council for necessary action.

### **Guidelines and Procedures for Staff Recruitment into the WACB**

37. The highlights of the document Ref:WAMI-IMAO/ODG/CC.7/14, earlier circulated to participants were presented by WAMI. The purpose of the paper is to put into motion a machinery for recruiting the most competent staff to start-off the WACB. Based on the approved organogram of the WACB, the paper outlines the necessary academic and professional qualifications for the various categories of staff. A total staff strength of under 200 is initially envisaged and the nucleus of staff to begin actual operations is estimated to

be 50. It is proposed that the Committee of Governors should scrutinise the credentials of two candidates from each country for the Executive Board positions, while a Governor of a member Central Bank will head a panel to identify suitable Departmental Directors. The Director General is proposed to head panels for selecting professional and support staff. The schedule for the recruitment exercise is to start on April 15, 2002 and end on September 20, 2002.

38. The Committee noted the importance of the issue of staff recruitment for the WACB. It directed WAMI to develop a human resource policy paper for the WACB which should be an all-encompassing document including job description, remuneration, etc. WAMI should utilise experiences from other monetary unions such as the European Central Bank. In any event, it was proposed that the Heads of State and Government, as the political authorities, should appoint the President and the Vice-Presidents of the WACB who will make necessary arrangements to recruit other staff in line with the policy paper. The policy paper would be considered along with the Uniform Central Bank Act early in June, 2002 by the Technical Committee.

### **Annual Report and Statement of Accounts of WAMI for 2001, and External Auditors' Report**

39. WAMI presented a brief summary of the document, Ref.: WAMI-IMAO/ODG/CC.7/15, which contains the maiden Annual Report and Statement of Accounts of WAMI for 2001. The Report reviews the activities of the Institute in 2001, with focus on the implementation of its work programme; developments in integration programmes in West Africa; macroeconomic developments in the countries of the WAMZ and international economic developments, especially their impact on WAMZ countries. It also provides a statistical appendix which outlines trends in major macroeconomic variables of WAMZ countries during 1999-2001. The Report also shows that the financial operations of WAMI in 2001 resulted in a net asset position of US\$377,026.00.

40. The Committee noted the report. Member countries were enjoined to carefully read the report and submit their comments to WAMI by the end of April, 2002 for use in revising the draft report. The Committee also noted the submission of the financial statements, which would be presented to the Convergence Council for consideration as provided for in the Statutes of WAMI.

#### **VII. ANY OTHER BUSINESS**

41. No issue was raised under this agenda item.

#### **VIII. ADOPTION OF THE REPORT**

42. The Report was unanimously adopted

#### **IX. VOTE OF THANKS**

43. Mr M. A. Ceesay, Director of Research, Central Bank of The Gambia, moved the vote of thanks. He thanked the Government and people of Sierra Leone for the reception accorded the delegates and the excellent facilities provided that enhanced the quality of deliberations. He commended the Director General and his staff for the high quality of documents presented. He further expressed appreciation to the Chairman and members of the Committee for their commitment to the ideals of the WAMZ.

#### **X. DATE OF NEXT MEETING**

44. The Committee decided to hold its next meeting in Accra, Ghana early in June 2002. The exact date will be communicated to members in due course.

#### **XI. CLOSING**

45. Dr. Samura Kamara, Chairman of the Committee, thanked delegates for the high quality of their contributions, which facilitated the proceedings of

the meeting. He also expressed his profound gratitude to the Director General and his staff for the high quality of the technical documents prepared which facilitated the work of the Committee. He advised that the performance of the Institute should be sustained.

**Done in Freetown, Sierra Leone  
This 9<sup>th</sup> day of April 2002.**

**Dr. Samura KAMARA  
Chairman, Technical Committee  
West African Monetary Zone**