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Website: <http://www.wami-imao.org>
E-mail: info@wami-imao.org

CAPACITY BUILDING

THE EUROPEAN CENTRAL BANK (ECB) COMMENCES TECHNICAL ASSISTANCE TO WAMI

The European Central Bank (ECB) commenced a programme of Technical Assistance on capacity building to WAMI on February 10 2004. Under the programme, the ECB would run workshops and seminars on key areas of policy, statistical issues as well as operational issues relating to currency management, unit of account and modalities for introducing a new currency. The workshops and seminars are to be organised for WAMI and the National Central Banks (NCBs). The first in the series of seminars for capacity building for WAMI was a high level policy seminar on the monetary policy framework of the Eurosystem, including the ECB's monetary policy and the responsibilities of the European System of Central Banks (ESCB) in the monetary policy of the ECB. The seminar was attended by the Director General, Director of Research and Multilateral Surveillance, and the Policy Adviser.

A seminar was organised for the Team by the ECB from February 10 – 12 2004. Thereafter, the Team visited the German Bundesbank on February 13, 2004 to interact with officials of the Bank on the operations of ECB's monetary policy, payments system and foreign exchange management. The Team was also at the Banque de France to discuss issues relating to the role of the Bank in ECB's monetary policy, the payments system, currency management and rating system

for determining counter parties' eligibility for liquidity.

Another Team, under the technical assistance programme, visited the Bundesbank from March 1 – 5 2004. An intensive seminar on monetary policy of the ECB and its implementation was conducted for the Team. The Team was made up of a Chief Economist from WAMI and high ranking officials from the National Central Banks. A programme on statistical issues was also organised for WAMI and National Central Bank officials from April 26 – 30, 2004. The Team visited the ECB, Bundesbank and Banque de France. A Chief Economist from WAMI was on the team.

At the monetary policy seminars, the main issues discussed included the monetary policy decisions of the euro area, transparency and communication in the ECB's monetary policy, monetary policy strategy, operational framework for monetary policy, collaterals and counterparties in monetary policy, and prospects for monetary unification in the West African Monetary Zone. The statistical issues discussed included BOP statistics and external reserves, money and banking statistics, and general economic and financial statistics. Other seminars in the pipeline are currency management, a second module on monetary policy, and cash processing and money laundering. These seminars are to be held later in the year.

The ECB's technical assistance has been very useful in providing participants with in-depth understanding on the policy issues in a monetary union. The sessions on monetary policy in the euro system were particularly rewarding assisted in improving the capacity of participants. The insight gained by WAMI staff has also been useful in preparing the Institute for the final phase of its work on monetary policy instruments for the WACB.

MULTILATERAL SURVEILLANCE

HEADS OF STATE AND GOVERNMENT OF WAMZ TAKE KEY DECISIONS AT ITS 6TH SUMMIT

The Sixth Summit of the Authority of the Heads of State and Government of the West African Monetary Zone (WAMZ) took place in Accra, Ghana on December 19 2003.

The Summit considered the Report of the 13th meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ, which contained a number of proposals for strengthening the implementation of the WAMZ programme and putting member countries on track for the monetary union scheduled for July 1 2005. The proposals included the need for member countries to redouble their efforts at macroeconomic management to enable them qualify for the monetary union expected to take off on July 1 2005 when two or more countries satisfy the prescribed convergence criteria.

The Heads of State and Government agreed that the WAMZ monetary union should be built on solid economic foundation, preceded by the attainment of macroeconomic convergence. They urged member countries to make available adequate resources to the National Sensitisation Committees in their member countries in order to effectively sensitise the stakeholders of the programme and ensure that it was not derailed owing to a wrong perception of the programme by the populace.

Member countries were also urged to promptly discharge their financial obligations to the programme. The Summit reaffirmed its commitment to the launch of WAMZ monetary union on July 1 2005 as scheduled, but with a proviso that at least two countries should have satisfied the convergence criteria by that date for the union to take off.

The Heads of State and Government, meanwhile, decided that Ghana should host the Headquarters of the WACB on the understanding that all WAMZ countries would be eligible to express interest to host the Headquarters of the future ECOWAS Central Bank.

The Summit also endorsed the recommendation of the Convergence Council that there was need to sustain the solidarity of the member countries of WAMZ by ensuring that all participants in the programme have a sense of belonging through balanced allocation of institutions and management positions.

The Summit also agreed with the Convergence Council that proper balance should be ensured in the location of the WACB and appointments to its Executive Board, location of the West African Financial Supervisory Authority (WAFSA) as well as the WAMZ Secretariat, including the key appointments to these institutions.

The Heads of State and Government also formally signed the Revised Statute of the WACB which it endorsed at its Fifth Summit in Abuja, Nigeria, in August 2003.

WAMZ FINANCE MINISTERS AGREE ON PLANS FOR REVENUE MOBILISATION

The Finance Ministers of the West African Monetary Zone (WAMZ) held their third Forum in Freetown, Sierra Leone on March 15 2004 to deliberate on strategies for improving revenue mobilisation in the WAMZ and the prospects for reduction fiscal dominance.

The Ministers' deliberations were preceded by two presentations. WAMI presented a paper on the **Structure of Government Revenue in the West African Monetary Zone**. The paper examined the structure and trends of fiscal revenues in the WAMZ countries, outlined the composition of government revenues and the tax efforts in the Zone. The analysis in the paper revealed that most of the countries relied largely on unsustainable and volatile revenue sources, particularly external grants and commodity and export taxes. The revenue sources also were not diversified with some countries obtaining over 50 percent of their tax revenue from a single source. The more reliable sources that normally grow with output such as direct taxes had little shares in total revenue. The low tax effort as measured by the revenue/GDP ratio indicated that with more effort, the countries could generate a lot more revenue from the existing tax base.

Furthermore, the paper noted that there was a substantial gap in revenue mobilisation in all the WAMZ countries. At the end of 2002, the ratio of total tax revenue to GDP in the WAMZ countries was generally below 20 percent except in Nigeria, where the ratio was higher

than the WAMZ average. With the exception of Nigeria and The Gambia, the share of income taxes in total revenue in WAMZ was low by international average that ranges between 30 to 40 per cent. However, Nigeria's performance was heavily influenced by oil-related revenues, which are volatile. The proportion of trade taxes in total revenue was high in the WAMZ, while the ratio of external grants to total revenue (excluding grants) was also quite high in all countries except Nigeria. In Sierra Leone, it was as high as 40.0 percent.

The paper concluded by identifying the need to take action to improve revenue profiles by diversifying and widening their tax bases to increase taxable capacity, improving legal frameworks, providing adequate funding for tax administration and avoiding excessive use of discretion in tax exemptions.

Mr. Victor Odozi, former Deputy Governor, Central Bank of Nigeria, (Domestic Monetary and Banking Policy), currently the Managing Consultant, Teredoz Consulting, made a presentation on: **Strategies for Revenue Mobilisation in the WAMZ**. The paper observed that the most formidable macroeconomic task facing the WAMZ countries was development of revenue capacity and the elimination of fiscal dominance. Government fiscal operations have been a major source of macroeconomic instability in the WAMZ countries over the years. Fiscal dominance manifestations include the following: the unduly large size of the public sector relative to GDP; the entrenchment of fiscal deficit; the persistent "overshooting" of the maximum target set for credit to the

public sector and consequent “crowding out” of the private sector in the allocation of available credit or investment. The causes of fiscal dominance were outlined to include:

- Unduly bloated size of the public sector and undue dependence on government by the private sector;
- The high cost of public administration;
- The high and unsustainable domestic and external debt stocks and debt service obligations which absorb a large proportion of available revenue; undue dependence on a few commodities;
- The strongly pro-cyclical nature of fiscal management;
- The high proportion of total expenditure taken up by non-discretionary expenditures; and
- Fiscal indiscipline and extra-budgetary expenditure.

The paper analyzed the various revenue sources, features, potentials, constraints and prospects in the WAMZ and outlined some strategic imperatives for revenue mobilization in the zone to include:

- Adoption of formal, comprehensive and internally-consistent tax policies and principles to guide and inspire revenue mobilization efforts;
- Diversification of the production base of the economy and creation of an enabling environment;
- Reforming the tax system to foster rapid economic growth;
- Sustaining the shift from direct to indirect taxation and diversifying into broad-based consumption-related taxes;
- Frontally addressing the problem of proliferation of taxes through the

adoption of a simple, consolidated tax system;

- Improving the data and statistical base through such initiatives as the compilation of registers of individual and corporate taxpayers and establishment of Large Taxpayers Units;
- Investing adequately in revenue generation;
- Ensuring that tax incentives are minimal and properly targeted;
- Undertaking public enlightenment and taxpayer education on the need to pay tax as a citizen’s obligation to the state;
- Addressing other tax and non-tax disincentives;
- Evolving creative and cost-effective ways of adequately taxing small businesses and informal sector operators;
- Ensuring that government saves i.e. runs a fiscal surplus, during a period of boom in order to finance a bust; and adopting a “carrot and stick” approach to revenue mobilization, by providing adequate incentives to enhance compliance and appropriate sanctions to deal with non-compliance.

The paper recommended that there should be expenditure reforms to ensure more judicious use of resources, good governance and sustained fight against waste and corruption. In addition, the deep-seated public mistrust for governments arising from past misdeeds and breaches of faith needs to be addressed, through the principles of good governance, accountability and transparency so as to make a difference in the life of the ordinary man for the better.

Outcome of Deliberation by Finance Ministers

Finance Ministers deliberated exhaustively on the presentations. They noted the efforts of the countries at revenue mobilization. For example, The Gambia intends to extend income tax coverage to include the self-employed and small scale enterprises through the modernisation of the income and sales tax Bill. Ghana introduced an incentive scheme whereby the revenue collecting agencies are allowed to retain up to 3.0 percent of revenue collected. In Guinea, quantitative targets and performance criteria are set for revenue generating services. In Nigeria, the downstream sector of the oil industry is being deregulated and liberalised with a view to achieving appropriate pricing of products and eliminating subsidy, while generating steady supply. Sierra Leone established the National Revenue Authority with an incentive for the Authority to retain 3.0 percent of its collections. Ministers however, expressed concern on the over dependence on external grants for budgetary support by most of the countries and urged them to reform their tax systems in order to broaden the domestic revenue base.

The Ministers thereafter made the following recommendations:

i) Intensification of Revenue Mobilization Efforts

- Member countries were urged to accelerate tax reforms by abridging and rationalizing tax and tariff structures, and adopting broad-based consumption taxes, such as VAT to increase revenue mobilisation and

reduce undue reliance on foreign aids which may not be forth coming. Measures to improve tax administration and reduce tax evasion and corruption should also be sustained. As a practical step, there is the need to urgently put in place machineries for establishing special courts to deal with tax evasion issues in the WAMZ.

- The Ministers agreed on the need to adopt a comprehensive and internally-consistent tax policy framework to guide and inspire revenue mobilization efforts. This would help in addressing the problem of proliferation of taxes through the adoption of a simple, consolidated tax system with only a few broad-based taxes and low tax burden. Thus, taxes with nuisance value should be eliminated in favour of those with revenue value.
- In a nutshell, the tax system reform agenda being pursued in the countries should be geared towards improving revenue generation while also promoting economic growth.

(ii) Rationalisation of Expenditure in Line with Revenue Profile

The Forum agreed that it was most essential to rationalise expenditure in line with sustainable and predictable revenue profile.

iii) Improvement of Data Base

The data and statistical base in the Zone should be improved through such initiatives as the compilation of registers of individual and corporate taxpayers and establishment of Large Taxpayers

Units. A comprehensive record of tax payers would enable the authorities to capture the potential revenue to government while appropriate measures are put in place to collect such revenue.

iv) **Minimisation of Tax Exemptions**

Tax exemptions should be minimal and properly targeted.

v) **Public Education**

Public enlightenment and taxpayer education on the citizens' obligation to the state should be given due attention. This should however be balanced with the reciprocal responsibility, transparency and accountability of government in fiscal operations. A great disincentive to the payment of tax is the general perception that tax revenues are mismanaged. Thus, there should be more honest and prudent use of taxpayers' money in tangibly improving the welfare of the people.

vi) **Enhanced Remuneration for Tax Collectors**

The various tax departments in the WAMZ, including the customs should be given adequate incentives to ensure that all the potential revenues of government are collected. One strategy is to allow them to retain a proportion of their collections with the latitude to deploy the funds to enhance their pay package and general conditions of service.

vii) **Issues on Good Governance**

The Forum underscored the need to practically demonstrate transparency and accountability in government fiscal

operations. It was noted that a great disincentive to the payment of tax was the general perception that tax revenues were being squandered, looted or misappropriated. Governments in particular should demonstrate the commitment towards good governance in order to carry the people along with their programmes and priorities, which should clearly indicate where budgetary allocations are being deployed.

ix) **Appropriate Pricing of Government Services**

Government services should as much as practicable be provided on full cost recovery basis. Such a process would enable government to enhance the provision of public goods and services without recourse to subsidies.

**EXPERTS WORKING GROUP
DISCUSS ACTION PLAN FOR
STATISTICAL HARMONISATION
IN THE WAMZ**

The Experts Working Group Meeting on Statistical Harmonisation in the West African Monetary Zone (WAMZ) took place at the Conference Room of the West African Monetary Institute, Accra Ghana from April 19 – 20, 2004. The objectives of the meeting were to:

- Establish a permanent team of technical experts with mutual, long term commitment to the goal of statistical harmonisation in the WAMZ;
- Obtain member countries' commitment to the Action Plan for Statistical Harmonisation in the WAMZ and the maintenance of a common statistics database at WAMI; and

- Outline a budgeted programme to address the priority statistical harmonisation needs which will be presentable to donors

The Meeting was attended by officials from National Statistics Offices, Ministries of Finance and Central Banks of the WAMZ. Other international institutions represented at the meeting were the ECOWAS Secretariat and United States Agency for International Development (USAID).

The deliberations were preceded by presentations of the core components of the Draft Action Plan by WAMI and the USAID consultant which included an Overview of the Minimum Data Requirements for Convergence Surveillance and the Minimum Comparability Standards for Harmonisation, the results of assessment on Current Status and Sources of Non-comparability of the key data categories in the member states, and the Data Improvement Needs for Harmonisation.

The presentation on the minimum data requirements for convergence surveillance emphasized that the statistical reporting needs border on the WAMZ Convergence Criteria (primary and secondary). It identified eleven major statistics which each country needs to submit to enable WAMI to monitor the convergence process and noted that this subset of statistics must be produced in uniform, high quality manner in order to accurately represent the economic activity they measure, be highly comparable across the WAMZ and facilitate the compilation of zone-wide level macroeconomic aggregates to enhance policy coordination in the Monetary Union. It further noted that the

minimum comparability standards, which focused on definitions, concepts, scope and coverage of data, accounting conventions, compilation and dissemination practices were largely based on international statistical standards and best practices.

The presentations on the results of the assessment of current status statistics in the WAMZ focused on the National Accounts, the Consumer Price Indices, the Fiscal Data, Monetary Statistics, and Trade Statistics. The main findings on National Accounts estimates of the GDP at market prices was that countries were at varying degrees of development of their national accounts and GDP estimates. Relative to the minimum comparability standards, weaknesses identified in the GDP estimates produced in the WAMZ were generally linked to differences in the coverage of the data, particularly with respect to censuses of institutional units and sectors, differences in classification systems in use, lags in the frequency of benchmarking and revision of estimates to arrive at independent annual estimates, and lags in the dissemination of the statistics.

On the consumer price indices, the differences were with respect to the scope and coverage, the classification system in use, outdated Household Expenditure Survey and older base years.

The assessment of fiscal statistics indicated that all the countries' definitions, concepts, accounting conventions and data sources are generally identical and by varying degrees are consistent with international best practice on the coverage of central

government financial operations. The main areas which undermine comparability are fiscal convergence classification and comprehensiveness of data captured from source.

The presentation noted that trade statistics were largely harmonised in the zone. It however, identified key data quality weaknesses, which undermined comprehensiveness of coverage of the source data across countries and therefore comparability across the zone. These included under-reporting of exports and imports, low survey coverage, ad hoc estimation methods for unrecorded transactions, weaknesses in customs reporting.

The monetary statistics were identified as the most harmonised in the zone. However, data quality issues regarding coverage, misclassification and timeliness in the source data, particularly at the level of the depository corporations were highlighted. Another major task, which remained, was the development of uniform format at the required level of aggregation to enable the compilation of zone-wide monetary aggregates.

The meeting achieved, to a large degree, all of its five major objectives. A basic objective of the meeting was to bring together the group of statistics experts from across the region to form a permanent working group that would mutually commit to work together over the long term to bring about the required statistics harmonisation goals of WAMZ. The meeting, very well attended by the leadership of the statistics producers in all five WAMZ member countries, did voice its commitment to this goal. The view was

expressed that deeper cooperation and commitment could now be achieved at the level of subgroups of statistics experts according to major data area. Several country delegations also expressed the value of cooperation in capacity-building through study tours of statistics experts across the WAMZ countries.

An additional benefit of the meeting was to produce potentially greater cooperation among the three major statistics producers within each country. It was observed by delegates that the needs of each of the three major generic statistics producers – central banks, national statistics offices, and ministries of finance – strongly overlap within each country, so that close cooperation to share both effort and resources would be highly efficient. By requiring the individual country delegations, which were made up of representatives from each statistics producer, to agree on the most important statistics improvement priorities, it was expected that the meeting would have advanced in-country cooperation.

A fundamental objective of the meeting was the approval of the Statistics Harmonisation Action Plan that has been under development at WAMI over the past several months. Indeed, several elements of this plan had already been completed, including the transmission of statistics harmonisation assessment templates to members, and their completion, in December 2003, and the subsequent statistics harmonisation assessment mission in February 2004. The delegates committed themselves to the complete implementation of the Statistics Harmonisation Action Plan,

and in so doing formally launched the WAMZ statistics improvement for convergence surveillance programme.

The delegates agreed that the transmission of data required by WAMI for convergence surveillance has been insufficiently timely in the past with respect to some statistics. It was agreed that a common WAMZ statistics database gives symbol, form, and substance to real convergence surveillance. They agreed to work together to establish a common statistics database at WAMI, based on electronic transmission of data as soon as it is finalized by statistics producers, to enable the Institute carry out its convergence surveillance responsibilities for the benefit of all member countries and the public.

WAMI reported at the meeting its findings with regard to the statistics improvement needs for convergence surveillance based on responses to the statistics harmonisation assessment templates and the statistics harmonisation assessment mission. Delegates highlighted additional needs. Country delegations were asked at the meeting to deliberate among themselves briefly and select their three highest priorities for statistics improvement related to WAMZ convergence surveillance needs, which they did.

The delegates agreed that WAMI, armed with information gathered from its prior activities and from this feedback from the meeting itself, should now prepare a comprehensive document specifying a WAMZ Statistics Improvement Activities Programme for Convergence

Surveillance (“the Programme”) which will:

- a) Specify the set of statistics improvement activities necessary to achieve minimum needs for convergence surveillance
- b) Identify the subset of these statistics improvement activities currently underway or immediately planned, and their funding
- c) Identify and budget the remaining needed activities.

The Programme Document would then be submitted to the Statistics Harmonisation Experts Group for its approval, and for it to determine the extent to which the Programme could be funded by WAMZ resources. The Programme would then be presented to donors, as a common package for their potential support for remaining resource needs.

The delegates requested WAMI to consult with ECOWAS in the preparation of the Programme document, and agreed that close coordination with ECOWAS statistics improvement activities should be a particular focus of the Programme. The delegates agreed that coordination between WAMI and ECOWAS in statistics improvement would be of benefit to both institutions. The delegates requested WAMI to draft and deliver this Programme document by 30th June, 2004.

The delegates accepted broad scope of work for two advisors who should be mobilized as quickly as possible under the support being provided to WAMI by the Accra-based West African Regional

Program of the United States Agency for International Development (USAID).

The Statistics Improvement Advisor will work with WAMI staff, in consultation with member countries statistics producers and ECOWAS Secretariat, to produce the Statistics Improvement Activities Programme document.

The second Advisor, the information and Communications Technology Advisor will work with WAMI and member country statistics producers as well as the ECOWAS Secretariat to assess requirements for (i) the realization of the WAMZ common statistics database at WAMI, and (ii) the ICT needs of member countries to achieve needed statistics improvements for convergence surveillance.

Finally, the delegates agreed on the need for improved public awareness on the meaning and importance of the convergence-related statistics, and agreed that this should be considered in the preparation of the Programme.

IMF UNDERTAKES CONSULTATIVE MISSION TO WAMI

The International Monetary Fund (IMF) undertook its second Annual Consultation with WAMI in Accra, Ghana from March 31 – April 2 2004. WAMI's presentation focused on the various aspects of its work programme including: macroeconomic developments and convergence in WAMZ countries in 2003 and prospects for 2004; the new exchange rate mechanism (W-ERM II),

harmonisation of statistical reporting for macroeconomic surveillance; stabilisation and cooperation fund; preparations for the monetary union; development of payments system. Other issues were: the conclusions of the Accra Summit on the feasibility and timeframe of the monetary union project, and cooperation with the IMF, World Bank and other development partners.

The reactions of the IMF Team centered on the need for strong political commitment in respect of implementation of credible macroeconomic policies, treatment of foreign assistance in the computation of fiscal deficit to GDP ratio, the WAMZ exchange rate mechanism, independence of the WACB; feasibility of the monetary union; and prioritization of the building blocks for economic and monetary integration, among others.

The highlights and conclusions following discussions are as follows:

Macroeconomic Surveillance and Convergence

The WAMZ exchange rate mechanism is a guide for member countries to apply correct monetary and fiscal policies and does not imply a fixed exchange rate regime

WAMI should consider, after due consultation with member countries the use of the primary balance or basic balance in the fiscal deficit/GDP ratio computation and measurement as the current measurement penalizes countries that obtain foreign assistance to support externally financed expenditure.

In the interest of ensuring synergy in the macroeconomic programmes in member countries, it would be important for WAMI to attend Fund missions in member countries as observers. The IMF could inform WAMI of prospective missions in the WAMZ member countries and the Institute could follow up with the countries for participation.

Architecture of the WAMZ Monetary Union

The IMF Team noted that it was necessary for WAMI to clearly define the monetary policy framework for the Zone. WAMI informed the meeting that a baseline study on the issue had been undertaken by WAMI and that the monetary policy framework for the WAMZ would initially revolve around monetary targeting. The monetary policy instruments and procedures were being developed and the IMF would have an opportunity to make observations when the document was ready.

The currency management framework, (unit of account, external value of the ECO, virtual currency etc.) was the current focus of WAMI. Technical assistance from the IMF would be helpful in this area.

The setting up of an independent supervisory framework for the zone should not be delayed. It was therefore advised that the West African Financial Supervisory Authority be established at the inception of the WACB.

Timeframe and Building Blocks for the Monetary Union

There is need to sufficiently prepare the building blocks for the introduction of the common currency. In order to successfully attain the aims of the WAMZ monetary union, the convergence process should be concluded with the attainment of the stipulated convergence criteria. Convergence should be sustained even after the monetary union. However, there are a number of building blocks, some of which are being pursued at the level of ECOWAS, which would complement the monetary integration endeavour. These include: government according full independence to the national central banks; developing securities that could be traded at the regional level at market determined interest rates; fully liberalizing the current accounts of member countries; improvement in communication and transportation network; fully functioning customs union including free movement of persons, goods and capital; and cost cutting measures to render the region internationally competitive.

Improvement of Quality of Statistics

Improvement in the collection and quality of statistical information is critical for the convergence process. These should be pursued effectively by both member countries and the Institute.

Stabilisation and Cooperation Fund

The operations of the Stabilisation and Cooperation Fund should be mutually reinforcing to the monetary policy of the WACB.

Other Issues

Asymmetric shocks reflecting terms of trade changes are a possibility in the zone and may affect macroeconomic stability. As such, member countries should undertake diversification of their economies while some form of financing should be available to countries adversely affected by the shocks.

The broad conclusions of the meeting are the desirability of creating a regional money and capital market and regional monetary instruments. Trade integration should be facilitated in the zone to improve intra-zone trade and make the monetary union worthwhile. The quick wins to move the WAMZ programme forward include: central bank independence, removing of bottlenecks and obstacles to free movement of goods and persons, regional trading in treasury bills, liberalising of the airspace, more effective telecommunication systems, liberalization of the current and capital accounts and effective sensitisation of the populace in the member countries.

WAMI UNDERTAKES MULTILATERAL SURVEILLANCE MISSIONS TO MEMBER COUNTRIES

The Institute undertook multilateral surveillance missions to the member countries of the WAMZ from March 22 – 29 2004 to review macroeconomic developments and assess progress towards convergence in 2003, and proffer some policy recommendations for 2004.

Macroeconomic conditions worsened in the WAMZ in 2003 compared with the

position in 2002. Monetary aggregates accelerated in most of the countries while the inflation rates trended upwards. The rate of economic growth was also sluggish in most of the countries. However, in The Gambia, the economy grew by 8.0 percent in 2003 compared with 2.3 percent in 2002. The exchange rate of the dalasi continued to be under pressure while the inflation rate remained high at 17.6 percent. The rapid growth in monetary aggregates in The Gambia followed monetary accommodation of fiscal operations of government by the Central Bank. The domestic financing of the fiscal deficit, largely from the Central Bank was as a result of lower than expected external inflows. The Gambia that satisfied 2 primary convergence criteria in 2002, could only satisfy 1 at the end of 2003. The level of reserves could finance up to 4 months of imports, a drop from 5.5 months in 2002, but a comfortable level relative to the benchmark of 3 months. The Gambia satisfied 1 of the 6 secondary convergence criteria in 2003.

Ghana recorded a modest increase in the growth of real GDP from 4.7 percent in 2003 to 5.2 percent in 2004. Fiscal operations of government resulted in a net repayment of 5.0 percent of previous year's tax revenue vis-à-vis a programmed zero net borrowing from the Central Bank. As a result, the growth in monetary aggregates was significantly contained and the exchange rate of the cedi was stabilized. However, inflationary pressures persisted during the year following the nearly 100 percent increases in the prices of petroleum products early in the year. Inflation increased from 15.2 percent in 2002 to 23.6 percent in 2003. In the external sector, Ghana recorded substantial gains

with a strong export performance, following improvements in the world market prices of cocoa and gold. There were also inflow of home remittances and donor support. The country's external reserves rose to the highest level in 30 years at 4.0 months of import cover against 2.3 months in 2002. Ghana's performance on the convergence scale also improved significantly from zero compliance in 2002 to compliance with 2 primary criteria in 2003. Ghana satisfied the criteria on Central Bank financing of fiscal deficit and reserves/import cover. Ghana satisfied 3 of the 6 secondary convergence criteria in 2003.

Guinea's real output growth contracted from 4.2 percent in 2002 to 2.1 percent in 2003. This was largely accounted for by the crisis in the energy sector and low manufacturing capacity utilisation. Following low revenue performance and high government expenditure, monetary developments were expansionary. Part of the fiscal deficits of government was financed from borrowing from the Central Bank. Inflation assumed an upward trend while the slow movement in the exchange rate tended to reduce the competitiveness of the external sector. External reserves declined significantly from 2.1 months of imports in 2002 to 1.8 months in 2003. Guinea which satisfied 1 primary convergence criterion (inflation) in 2002 did not satisfy any of the 4 primary convergence criteria in 2003. Guinea's performance on inflation was particularly worrisome as the country had historically achieved a low single digit inflation rate. However, in 2003, inflation stood at 14.8 percent, up from 6.1 percent in 2002. Guinea satisfied 1 of the 6 secondary convergence criteria in 2003.

The rate of Nigeria's economic growth estimated at 4.3 percent at the end of 2003 was slightly lower than the 5.0 percent real GDP growth in 2002. Economic growth continued to be propelled by oil receipts and agricultural output. Following expansionary fiscal operations in the latter part of 2003, the depreciation in the exchange rate of the naira and increase in the prices of petroleum products, inflationary spiral exacerbated, with domestic prices rising from 12.2 percent in 2002 to 23.8 percent in 2003. Budget deficits were largely contained during the year. However, the hosting of the All African Games and the Commonwealth Heads of Government Meeting in Nigeria resulted in extra-budgetary expenditures as there were no adequate budgetary provisions for these activities. The resort to the Central Bank for credit resulted in Nigeria narrowly missing the criterion on central bank financing of the fiscal deficit at 10.3 percent against the target of 10.0 percent of previous year's tax revenue. At the end of 2003, Nigeria satisfied 2 of the 4 primary convergence criteria, the same position since 2001. The country satisfied the criteria on budget deficit/GDP ratio at 2.9 percent, an improvement over 5.4 percent in 2002, and reserves/import cover at 6.5 months against 9.9 months in 2002. Nigeria satisfied 3 of the 6 secondary convergence criteria in 2003.

Sierra Leone's GDP growth rate was estimated at 6.5 percent in 2003 compared with 6.3 percent in 2002. The improvement in mining and agricultural activities, and construction were largely responsible for the slight increase in the rate of economic growth. Government was under considerable fiscal pressure as a result of the shortfall in donor inflows

to bridge the budgetary gap. The financing of the budget had to be accommodated by the Central Bank that offered credit to Government to the tune of 25.4 percent of the previous year's tax revenue. The domestic money market was under considerable liquidity overhang while the external sector was also under pressure following shortfalls in donor inflows and structural export constraints. As a result of these developments, the leone was under considerable pressure, depreciating by 14.9 percent compared with a depreciation of 0.9 percent in 2002 when the leone was relatively more stable. At the end of 2003, the leone depreciated by 15.5 percent against its central parity rate in the WAMZ exchange rate mechanism compared with the fluctuation band of ± 15.0 percent. The leone was thus out of the WAMZ ERM at the end of December 2003. Sierra Leone did not satisfy any of the 4 primary convergence criteria in 2003 compared with 2002 when it satisfied 3 criteria. Also, Sierra Leone did not satisfy any of the 6 secondary convergence criteria in 2003 compared with the attainment of 2 secondary criteria in 2002.

Overall, the WAMZ countries, except Nigeria failed to satisfy the criterion on budget deficit/GDP ratio. All the WAMZ countries missed the target on inflation. In respect of Central Bank financing of fiscal deficits, all the countries, except Ghana where a net repayment to the central bank occurred, did not satisfy the criterion. Guinea and Sierra Leone could not satisfy the benchmark of 3 months reserves import cover at the end of 2003. The fact that inflation trended upward with central bank financing of fiscal deficits is an

indication that refrain from borrowing from the central bank is a key to ensuring sustained macroeconomic stability. The convergence process which improved from an overall score on the primary criteria of 45 to 50 percent in 2001, dropped to 40 percent in 2002 and further to 25 percent in 2003. However, the situation could be remedied with appropriate policy measures, especially those relating to fiscal consolidation and reliance on earned revenues for budgetary allocations.

OTHER AREAS OF THE CONVERGENCE PROCESS

ZONAL SENSITISATION WORKSHOP FOR THE FINANCIAL SECTOR IDENTIFIES MAJOR AREAS OF FOCUS

The 5th Meeting of the Zonal Coordinators of the National Sensitisation Committees (NSEs) was held in Accra, Ghana on March 8 2004. It was convened to review the activities of the committees and conclude arrangements for the Third Zonal Workshop for the Financial Sector that was held on March 9 2004. The Coordinators presented developments with the sensitisation programmes in their countries and reviewed the programme for the workshop for the Financial Sector

The Third Zonal Workshop of the West African Monetary Zone (WAMZ) on the theme “Positioning the Financial Sector in the WAMZ”, organized by the West African Monetary Institute (WAMI) in collaboration with the National Sensitisation Committee (NSC) of Ghana, was held at the Conference Hall of La Palm Royal Beach Hotel, Accra, Ghana on March 9, 2004. The objectives of the Workshop were to raise the level of awareness among the financial sector operators on the status of the WAMZ programme and provide a platform for discussion on topics of interest to the financial sector in the WAMZ, to ensure that they are fully conversant with their responsibilities in the endeavours to ensure a successful monetary union and an efficient West African Central Bank (WACB).

Mr. Lionel Van-Lare Dosoo, Deputy Governor of the Bank of Ghana, was to chair the **first plenary session** but had to return to the office to address urgent issues. The Acting Director of Research of the Bank of Ghana, Dr. E. K. Y. Addison stepped in for the Deputy Governor. Dr. Addison thanked participants for accepting the invitation to the Workshop. The chairman reiterated the importance of regional integration and identified the WAMZ programme as a component of the regional integration effort of ECOWAS.

Dr. M. O. Ojo, Director General, West African Monetary Institute presented a paper entitled “The West African Monetary Zone Programme: Problems and Challenges” at the session. After explaining the thrust of the WAMZ programme, he traced WAMI’s work programme and its implementation, the problems encountered, the challenges and strategies for making progress towards the goal of a monetary union for the WAMZ.

The Director General presented the highlights of the WAMZ work programme in six crucial areas, viz: multilateral surveillance of macroeconomic performance, design of frameworks and architecture of WAMZ monetary union, sensitization of stakeholders, collaboration with external partners, studies and publications; and the management of the Stabilisation and Cooperation Fund (SCF).

The Managing Director of ECOBANK Nigeria Plc, Mrs. Funke Osibodu,

chaired the **second plenary session** at which the papers on “Institutional Arrangements for Banking Supervision in the West African Monetary Zone” and “Capital Resource Mobilisation within the Second Monetary Zone: The Case for Cross-Border Investments” were discussed.

A paper on “Institutional Arrangements for Banking Supervision in the West African Monetary Zone” was presented by Dr. Alpha Diallo, Director of Operations, WAMI, at the Session. The paper noted that a robust arrangement for banking supervision ensures a sound and stable financial sector, the environment in which monetary policy can achieve its objective of price stability. It stressed compliance with the Basel Core Principles (BCPs) by the WAMZ countries as a precondition for operationalisation of the West African Financial Supervisory Authority (WAFSA), which was adopted by the WAMZ authorities for the conduct of banking supervision in member countries.

The third paper on “Capital Resource Mobilisation within the Second Monetary Zone: The Case for Cross-Border Investment” was delivered by the former Governor of the Bank of Sierra Leone and Executive Adviser to Union Trust Bank Limited, Freetown, Sierra Leone, Mr. J. Sanpha Koroma. The paper examined the extent to which the Sub-region was succeeding in the cross-border endeavors, having identified the enormous human and natural resources endowed to the countries in the sub-region. The paper further reviewed new approaches to cross-border investments through intensified efforts at sub-regional integration, common currency

or monetary union, foreign direct investment and confidence building measures among the people of the sub-region, which would foster better understanding and promote strong and legitimate cross-border investments along international standards and best practices.

Mr. D. A. Bah, representative of Commercial Banks in Guinea chaired the **third plenary session** at which the paper on “The Preparatory Arrangements Towards the WAMZ Common Currency” was presented by Mr. Millison K. Narh, Head of Banking Department, Bank of Ghana. The paper observed that regional integration was an important tool for promoting free flow of goods, people, ideas, enhancement; and investment capital, which result in wealth creation and domestic economic growth and development as well as improved capacity to cope with global economic problems. The paper observed that the building blocks towards successful monetary integration have been prepared. He focused on improving the payments systems, foreign exchange operations under the common central bank and the challenges facing the financial sector.

The Chairman of the session on group discussions was Mr. Ofori Atta, Managing Director, DataBank, Ghana. Highlights of group presentations are as follows:

GROUP A: CHALLENGES FACING THE FINANCIAL SECTOR ON THE COMMON CURRENCY

- (i) A Zonal market, foisted on competition should be created.
- (ii) The characteristics of financial institutions in the Zone should be studied with a view to harmonizing them.
- (iii) The central banks should adopt the strategy of staff exchange in their collaboration to harmonise the rules and practices of financial institutions in WAMZ countries.
- (iv) Banks within the zone should be rated to facilitate the establishment of correspondent banking relationships in the WAMZ.
- (v) Administrative interventions should be eliminated in the financial systems of the WAMZ to ensure efficient pricing of services.
- (vi) Fiscal dominance should be eliminated to enhance macroeconomic stability.
- (vii) Financial discipline should be enshrined through competition in order to bring about efficiency in the financial market.
- (viii) Productivity in the financial sector should be improved through manpower training in information technology.

- (ix) Mergers, acquisitions and joint ventures was recommended for repositioning the financial sector, especially in the context of universal banking.
- (x) The prevalent implicit deposit insurance scheme in the WAMZ should be complemented by explicit deposit insurance to create confidence among small savers.
- (xi) To protect the financial system from distress, the existing money laundering laws should be strengthened.
- (xii) The secondary market for securities should be deepened by assisting workers in acquiring shares in the companies they work for.
- (xiii) There is need to liberalise the capital accounts of all WAMZ countries so as to be in line with The Gambia and ensure that capital can flow freely among WAMZ countries.

GROUP B: IMPROVING PAYMENTS SYSTEMS IN THE WAMZ

The group identified the different modes of payments in the zone which include, cash, cheques, drafts, debit cards, ATMS and SWIFT. It observed that the issue of credibility influenced the predominant use of cash in WAMZ countries. Nevertheless, the public should be sensitized on the need to move away from the cash system while the regulatory environment is being

revamped. The group made the following recommendations after indepth discussions.

- (i) Private sector participation should be encouraged in providing infrastructural facilities (Electricity, IT, Water Supply and Telecommunications).
- (ii) Regulatory framework for ensuring security and integrity of the banking system should be reinforced and enforced through the WAMZ.
- (iii) Member countries of WAMZ should strive to achieve best practices, especially in the development of payments systems, and in interfacing the systems to make for intra-zone communications.
- (iv) Governments in the WAMZ should abolish duties on Personal Computers and soft wares to encourage acquisition by the public.
- (v) Banks should train their staff in information technology.
- (vi) Decisions and regulations of ECOWAS and WAMZ should be implemented promptly, through adequate political will.
- (vii) Banking documentations should be simplified to attract the patronage of the informal sector.
- (viii) The legal and regulatory frameworks should be strengthened and harmonized to check internet frauds and general abuse.

- (ix) The Eco currency project should be continued on the fast track approach in order to urgently improve cross border payments in the WAMZ.

GROUP C: FOREIGN EXCHANGE OPERATIONS UNDER THE COMMON CENTRAL BANK

The group had extensive deliberations on issues relating to exchange rate system for the WAMZ, external debt settlements and pooling of external reserves. The group came up with the following recommendations.

- (i) The exchange rate of the Eco should be market determined, reflecting the economic fundamentals of the Zone. A fixed exchange rate system would require the deployment of substantial reserves to defend the currency, which is not the case with flexible exchange rate system. The dollar should continue to be used as the anchor currency for the zone since the bulk of the reserves and external debt are denominated in dollar.
- (ii) The initial external value of the Eco should be arbitrarily determined, although rational approaches could be explored.
- (iii) Market exchange rates should be applied to determine the bilateral conversion rates of WAMZ currencies. In the meantime, the central banks should ensure that the parallel market premium does not exceed the international benchmark of 5 percent, which

- would account for the normal transport costs and risks in foreign exchange transactions.
- (iv) A Zonal Committee should be set up to harmonise the practices of foreign exchange dealings in the Zone. The Committee would also be required to determine the bilateral conversion rates of WAMZ currencies into Eco to ensure fairness.
 - (v) The Board of the WACB would determine all issues relating to the pooling of reserves on its inauguration.
 - (vi) External debt is fiscal policy related. Since the WACB would not fund governments, each member country would manage its foreign indebtedness.
 - (vii) Capital account liberalisation in the WAMZ should precede the commencement of operations of the WACB. Liberalisation beyond the zone, with third parties, should proceed after successful liberalization in the WAMZ. A Zonal Committee should be set up to work out the modalities for capital account liberalization.

WAMI AND EXTERNAL PARTNERS INITIATE MAJOR STUDY ON WAMZ PAYMENTS SYSTEMS

The Institute undertook a desk study on the payments systems in the WAMZ and came to the conclusion that the payments systems were largely inefficient with preponderance of cash payments. WAMI recommended the establishment

of National and Zonal Payments Committees to harmonise the various payments systems and make them more efficient. In order to facilitate the modernisation of the WAMZ payments systems, WAMI secured technical assistance from USAID on a data transfer payment and audit project, a satellite based payments system. However the project was considered too ambitious by the authorities of the WAMZ. They accordingly directed WAMI to engage the services of a Consultant to undertake a study on the payments systems in the WAMZ. The consultants, Consultancy Associates Ltd. of Hong Kong have completed the initial stock take study. The main findings are that cash still dominates the payments systems in the WAMZ with the use of cheques constrained by the absence of strict laws on bankruptcy, dodge or bounced cheques. The stock taking exercise also showed that Ghana was on the RTGS while Nigeria intends to implement its RTGS in the third quarter of 2004. Nigeria was the only WAMZ country with well established Automated Clearing House (ACH) services in Lagos. All WAMZ countries have ATMs and a few points of sales terminals which have not been networked. Overall, there are no payments systems components in any WAMZ country which can be used as a model for the WAMZ. In addition, no WAMZ country has a robust legal framework, and rules and procedures. Although Ghana has a modern legal framework through the recent payments system Act, there are no provisions for digital signatures and law on bankruptcy. Nigeria has the most comprehensive rules and procedures in the WAMZ, with the legal framework under review. Furthermore, none of the countries has a

systematically important payments system fully compliant with the BIS Core Principles.

Subsequent efforts would be directed at agreeing on the development of necessary infrastructure like constant electricity supply, improving the use and acceptability of cheques, modernizing the clearing houses, and modalities for implementation of automatic processing of high volume but low value payments (ACH). These would be addressed through a theoretical strategy for the payments system and its components, ACH, ACP, RTGS and ATM/POS switch, complemented with the business requirements in respect of the stock stake exercise. After a scheduled policy meeting, the way forward would become clearer. However, the strategy could be to devise a framework that would allow for interfacing of the current systems where feasible in addition to the requirements for comparability with a centralized payments system that the WACB would adopt. It may also be possible to allow the advanced systems to be fully amortised before coming on board a uniform system that may be designed for the countries with less advanced systems.

The draft report was reviewed by the 3rd meeting of the Zonal Committee on Payments System Development of the WAMZ on April 6 2004 in Accra, Ghana.

The Committee made a number of observations relating to some omissions from the report and certain areas of inconsistency. The consultants were advised to revise the report accordingly for its consideration. The Committee also advised that exit interview should

be held with member Central Banks to clarify areas of inconsistency. A workshop for all stakeholders was held on April 7 2004 in Accra, Ghana at which the Consultants presented their preliminary stock take report. Further areas of adjustment were identified.

FIRST INITIATIVE AGREE TO UNDERTAKE ZONE WIDE BCPs ASSESSMENT IN THE WAMZ

FIRST Initiative of London undertook a baseline assessment of WAMZ member countries' compliance with the Basel Core Principles on financial system's safety and soundness (BCPs) in 2003. An Action Plan on activities to be undertaken by member countries to move towards full compliance with the BCPs was thereafter drawn up. Under the action plan that has been adopted by the Authority of Heads of state and Government of the WAMZ, a Zone wide assessment of BCPs was to be undertaken in the course of 2004. The funding was not certain when the Action Plan was agreed. However, based on the Project Memorandum presented to the FIRST Initiative by WAMI, a donor agreed to fund the project. The details are being worked out by FIRST Initiative. Thereafter, WAMI's input would be sought.

The proposed assessment would be a major effort towards ascertaining the level of compliance with the BCPs after all WAMZ countries have gone through a phase of major reforms. The Zone wide BCPs assessment would build on the follow-up FSAPs for Ghana and Nigeria, and would ultimately prepare the ground for the WAFSA. FIRST Initiative intends to provide assistance

with follow-up self assessment for the countries that already had an FSAP which implies an assessment with BCPs, and help those countries without on FSAP to undertake self assessments against the BCPs.

ARCHITECTURE OF THE WAMZ

WAMZ SECRETARIAT AND WAFSA STRUCTURES ARTICULATED

In anticipation of the winding-up of the activities of WAMI on June 30 2005, and following the decision of WAMZ Authority of Heads of State and Government, the Institute has articulated the framework for the Secretariat of the West African Monetary Zone (WAMZ). The Secretariat will be responsible for multilateral surveillance, statistical harmonisation, fiscal and trade policy issues, conduct of policy research, secretariat functions for the WAMZ, and representation of WAMZ at local and international fora.

The organizational structure of the West African Financial Supervisory Authority (WAFSA) has also been articulated. The WAFSA would be responsible for banking supervision in the WAMZ on the commencement of operations by the WACB. The institutional structure of the WAMZ and WAFSA would be discussed at the meetings of WAMZ institutions in May 2004.

PREPARATIONS OF WACB HEADQUARTERS BUILDING STEPPED UP

Also, preparations of the Headquarters Building of the WACB has been stepped up. A Committee has been inaugurated by the Government of Ghana with WAMI as Secretariat to evaluate the requirements and ensure that the building was ready for the WACB by July 1 2005. The Committee has held

five meetings. At its 3rd meeting on March 18 2004, the Committee agreed that experts should be engaged to examine the Ridge Towers building and the facilities, and make recommendations to the Honourable Minister of Finance and Economic Planning. The Committee also agreed that after the consideration of the recommendations of the experts, contractors should be engaged to undertake all identified works on terms the Ministry of Finance and Economic Planning and the contractors may agree. At its 4th meeting on April 7, 2004 the Committee was informed that the Honourable Minister of Finance and Economic Planning had approved its recommendations. The Honourable Minister would contact the Ministry of Works and Housing to undertake selective tendering for the identification of suitable experts to undertake the required work.