

## CONVERGENCE COUNCIL RECOMMENDS ECO AS NAME OF WAMZ'S COMMON CURRENCY

At its sixth meeting held in Dakar, Senegal on December 18 2001, the Convergence Council of Ministers and Governors of Central Banks of the WAMZ, recommended ECO as the name of the Common Currency of the WAMZ to the Authority of Heads of State and Government from a shortlist of ECO Gini and Kauri. Other recommendations made at the Abuja meeting of July, 26 2001 and the Dakar meeting of December 18 2001 include the following:

- (a) member countries are urged to consolidate the improvements made in their macro-economic performance and to sustain the implementation of their economic recovery programmes in 2002 so as to enhance their eligibility for the WAMZ in 2003. Moreover, member countries are urged to adopt before the end of March 2002 the General Data Dissemination Standards of the IMF. WAMI should liaise with member Central Banks to ensure compliance by the end of the first quarter of 2002;
- (b) member countries are urged to step up their sensitisation activities by giving adequate support to their National Sensitization Committees (NSCs), particularly in the area of funding for the execution of national sensitisation programmes in 2002. The strategy and framework of the National Sensitization Programme prepared by WAMI should be fully implemented by all member states.
- (c) the proposed Exchange Rate Mechanism (ERM) should be in existence from April 1, 2002 to December 31, 2002. The modalities of the Mechanism, which will be worked out between WAMI and the National Central Banks (NCBs), will have the following features; the US dollar as the anchor currency and  $\pm 15\%$  margin of fluctuation from central parity rates in the first six months of operation of the mechanism after which it will be subjected to further review;
- (d) the WAMI should undertake further review of the implications of the pooling of reserves by the WACB, especially as the existing currencies in circulation in member countries which are backed by holdings of foreign exchange reserves will be converted into the new common currency when it is introduced;
- (e) the setting up of a Monetary and Economic Policy Committee (MEPC) in addition to the institutional structure of the monetary policy process indicated in the WACB Statutes. The MEPC will play a role similar to that of the Monetary Policy Committees in the European Central Bank, Bank of England, Central Bank of Nigeria and the Reserve Bank of South Africa, among other Central Banks.
- (f) the development of an efficient payments systems for national and cross-border transactions in the zone in order to improve and enhance implementation of monetary policy and the setting up of Zonal and National Committees by WAMI in collaboration with the NCBs to examine proposals for improving the zone's payments systems and prioritise them for implementation in a phased development programme;
- (g) the immediate operationalisation of the Stabilization and Cooperation Fund of the Zone already approved by the Authority. Contribution by member countries of US\$25 million, out of the initial call-up capital of US\$50 million, should be made before February 28, 2002, while the second tranche of US\$25 million should be paid before the end of September

2002. Contributions shall be in line with the ECOWAS budgetary contribution formula;
- (h) the NCBs will become branches of the WACB as they are no longer empowered to formulate monetary and exchange rate policy and issue currency. In the transitional period, the structure of the Central Bank System outlined in the Statutes of the WACB should be retained.
  - (i) member countries of the zone are urged to take all necessary steps to ratify the WAMZ Agreement and WACB Statutes by the end of the third quarter of 2002. The statutes would come into force upon ratification by at least three member states.
  - (j) a draft paper on the uniform Statutes of the branches of the WACB should be completed and submitted to member states in the first quarter of 2002.
  - (k) the adoption of the following administrative arrangements to ensure the smooth take-off of the WACB:
    - (i) the institutional and administrative structure of the WACB recommended by the Technical Committee;
    - (ii) the capital of the WACB should be US\$100 million to be contributed not later than October 31, 2002, in accordance with the agreed ECOWAS budgetary contribution formula;
    - (iii) decision on the location of the Headquarters of the Bank should be taken by June 2002. Member countries desiring to be considered should express their interest in writing to the Chairman of the Convergence Council by the first quarter of 2002, while a decision would be made by the Authority in the second quarter of 2002 ; and

- (iv) the allocation of the Bank's Executive Board positions to member countries and completion of appointments to the Board by September 2002, and the constitution of the Board of Directors of the Bank by November 2002.

### **SUMMIT OF WAMZ DECIDES ON CRITICAL ISSUES TOWARDS MONETARY UNION**

On the recommendation of the Convergence Council and after exhaustive deliberations, the Heads of State and Government of The Gambia, Ghana, Guinea, Nigeria and Sierra Leone adopted and signed the following decisions at the Third Summit in Dakar, Senegal on December 20, 2001.

- (a) Decision Relating to the Establishment of an Exchange Rate Mechanism for the WAMZ;
- (b) Decision Relating to the Development of National Payments Systems and Establishment of an Efficient Cross-Border Payment Arrangement in the WAMZ;
- (c) Decision Relating to the Operationalization of the Stabilization and Cooperation Fund of the WAMZ;
- (d) Decision Relating to the Establishment of the National Sensitization Committees in member states of the WAMZ;
- (e) Decision Relating to the Ratification of the Agreement of the West African Monetary Zone and the Statutes of the West African Central Bank;
- (f) Decision Relating to the Adoption of the Capital of the WACB; and
- (g) Decision Relating to the Adoption of the Name of the Common Currency of the WAMZ.

On the name of the Common Currency of the WAMZ, it was decided that the competent authorities of the West African Monetary Zone and the CFA Zone under the Chairmanship of His Excellency, Abdoulaye Wade, President of the Republic of Senegal, current Chairman of UEMOA and incoming Chairman of ECOWAS should jointly decide the name of the Common Currency of ECOWAS. Any of the two Zones could adopt the name once decided.

### **BANK OF ENGLAND AND WAMI HOLD SEMINAR IN ACCRA**

The Seminar, held between January 29 and 31, 2002 was the result of a request by the Committee of Governors of the West African Monetary Zone to the Bank of England at the June 2001 Forum for Central Banks to provide assistance to WAMI towards the realisation of the objective of a common currency for the West African Monetary Zone. Participants were drawn from member Central Banks of the WAMZ, The ECOWAS Secretariat, WAIFEM, University of Ghana and other research institutes in Ghana. Resource persons were experts from the Centre for Central Banking Studies of the Bank of England.

The Seminar achieved two major objectives; it provided an in-depth treatment of the subject of monetary union from both theoretical and practical perspectives. In addition, it examined in very clear terms the various issues critical for an effective monetary union. These issues revolve around monetary policy, exchange rate and external reserves management, banking supervision and prudential regulation, and monetary and economic statistics. Specifically, the Seminar re-emphasised, the preconditions for a monetary union, the forces driving the integration efforts in Europe in addition to the problems encountered in the build up to the single currency in Europe.

## **Technical Deliberations**

**The various subjects are summarized as follows:**

### **Monetary Union in Practice**

The Seminar provided an in-depth treatment of the subject of monetary union from both theoretical and practical perspectives. It examined in very clear terms the various issues critical for an effective monetary union, drawing mainly from the experience of the EU. The issues discussed revolved around monetary policy, exchange rate and external reserves management, banking supervision and prudential regulation, and monetary and economic statistics. The preconditions for a monetary union, the forces driving the integration efforts in Europe in addition to the problems encountered in the build up to the single currency in Europe were broadly covered.

### **Challenges to Monetary Union**

The challenges to monetary union were identified and strategies for ameliorating the problems were examined. A major challenge is the ability to keep fiscal operations of government in consonance with the monetary programme of the Common Central Bank in order to ensure price stability and reasonable economic growth. Another major challenge is the ability to maintain macroeconomic convergence in a group of countries that do not satisfy the preconditions for an optimum currency area, especially if they experience asymmetric shocks. Furthermore, the ability to produce adequate, timely and accurate statistics for multilateral surveillance is a challenge which would have to be surmounted for a more robust monetary policy design and implementation.

### **Role of Banking Supervision**

The Seminar revealed that banking supervision and regulation are important to ensure that bank failures are avoided and disruptive "lender of last resort" operations

are rarely undertaken. Lapses in regulation, leading to bank failures can easily result in the loss of credibility for the supervisory authority, and undermine monetary policy effectiveness if the supervisory authority is the central bank. In all situations, timely, consistent and reliable monetary and financial statistics are required for effective and efficient bank supervision and monetary management.

### Monetary Management

The Seminar discussed three main perspectives to monetary management; targeting the quantity of money, the external value of money or the internal value of money. The main lesson was that the three approaches, monetary targeting, exchange rate targeting and inflation targeting have their advantages and disadvantages. The preference for one over the other is largely influenced by the state of macroeconomic balance and the primary objective of a central Bank. Inflation targeting, which appears to be the latest model of monetary management, has elegant appeal in terms of precision and simplicity but it is driven by a mass of data, which may not be produced timely and may not be readily available in many developing economies. It was clear from the deliberations that the management of interest rates is a crucial instrument for achieving the goals of the three models of monetary management.

### Currency Boards and Other Options for Monetary Cooperation

It seems that currency boards, dollarisation and other stop-gap schemes of monetary cooperation are not a good substitute for a monetary union owing to a number of problems those schemes experienced in some economies. In a currency board arrangement, the risks of real misalignment in the exchange rate may be greater, making the economy externally uncompetitive. In the case of dollarisation, substantial seigniorage income may be lost while the tendency towards successive devaluations may not be ruled out.

### Statistical Harmonisation and Banking Supervision

The Seminar broadly recommended that statistics should be aggregated to cover the West African Monetary Zone and that such aggregation requires harmonisation of country data since these data must be sufficiently similar to permit such exercise. The Institute should, therefore, set out its framework for harmonising the zone's statistics. The Institute should define its statistical requirements covering the standards for the supply of data, which should include frequency, timeliness, quality and availability. The IMF GDDS framework was identified as a starting point for harmonising data in the WAMZ.

### Conclusion

The lessons from the Seminar are numerous, but among the most important and critical are that: national objectives and aspirations can be better achieved through collaborative efforts in a monetary union, especially through the application of peer pressure as the European experience has shown; barriers to monetary union can be overcome even in the absence of the standard preconditions as depicted by the relatively better economic performance of the CFA Franc Zone countries vis-à-vis the non CFA Franc Zone countries in West Africa; and the elimination of fiscal dominance through tight fiscal controls under a monetary arrangement brought about by peer pressure is a major benefit of monetary union.

### CBN TOP MANAGEMENT STAFF ON WORKING VISIT TO WAMI

Mrs. O. O. Akanji, Deputy Director of Research (Statistical Services) and Head, Technical Group of Direction Team of Project EAGLES, Central Bank of Nigeria was on a working visit to the West African Monetary Institute (WAMI) from December 10 – 11, 2001. During the visit, Mrs. Akanji met with the Management Board of WAMI, and thereafter held separate meetings with the Director General, Departmental Directors,

Heads of Units, Advisers and the Network Administrator/Webmaster.

## **II. Meeting with the Management Board of WAMI**

### **1. Opening Remarks by the Director General.**

The Director General of WAMI, Dr. M. O. Ojo, introduced and welcomed Mrs. Akanji to WAMI. He informed the meeting that the working visit was arranged to get the Management of WAMI informed on the Central Bank of Nigeria's restructuring exercise, the Project EAGLES and for the activities of the Institute to be made clearer to the officials of the Central Bank of Nigeria. The project EAGLES would be useful in defining a well-focused framework for the WACB. In addition, interaction with the officials of the National Central Banks would help to elicit their interest in the WAMZ project, thus ensuring a successful implementation.

### **2. Briefing by Mrs. Akanji on the Central Bank of Nigeria's Project EAGLES.**

Mrs. Akanji thanked the Management of WAMI for the opportunity of the visit. She explained that the Central Bank of Nigeria's restructuring and re-engineering exercise started in October 1999 by the new Management of the Bank. Code-named Project EAGLES, the exercise is aimed at the improvement of the Bank's processes with a view to making the Bank more efficient and proactive in service delivery. There is a lead Consultant, PriceWater HouseCoopers and an in-house Direction Team to manage the restructuring exercise. The Acronym, EAGLES stands for Efficiency, Accountability, Goal orientation, Leadership, Effectiveness, and Staff orientation (motivation).

The exercise was adopted in recognition of the need to address strategic issues, achieve a sharper focus on core functions and place the Bank in a world-class position with best practices. The project was intended to

change the staff culture of the Bank, using information technology as a springboard. The performance framework adopted for the exercise is the Performance Driven Change Methodology (PDC). This method defines and reviews the performance measurement set for each business process to be sure that process performance is appropriately measured.

Under an ascendant approach, three phases were mapped out for the project namely: Diagnostic, Process Re-design and Implementation. The Diagnostic phase focused on Information Technology, Human Resources, Culture and Communication. It involved the diagnosis of current work processes and restructuring of the core processes in the areas of Research, International Payments, Currency, Performance Measurement, Finance, Administration (Procurement) and non-core functions. The first phase was completed in six months.

The findings of the first phase led to the second phase, which deals with change structure with emphasis on core activities to attain best practices. There are four teams in the second phase: Information Technology (IT), Human Resources (HR), Communication and Web Design. The IT aspect focuses on software applications in the areas of ERP, Real Time Gross Settlement System (RTGS), banking operations as well as infrastructure development with emphasis on website development, Enterprise Management System, public infrastructure and communication. There has been a delay in the implementation of software applications, while there is progress in infrastructure development. Performance indicators have been developed and fine-tuned; job description and job evaluation have been redesigned while compensation survey is being undertaken. In addition the non-core activities, which consume over 55 per cent of the Bank's resources, have been diagnosed and recommendations made for them to be restructured or re-engineered.

### 3. Prospects for Achieving the Objectives of the Project EAGLES

Mrs. Akanji noted that this would depend on tighter management commitment, moving around the political issues to sever non-core processes so as to have adequate resources for best class performance. The establishment of a Strategic Unit for effective benchmarking is also critical for successful implementation of the Project EAGLES.

In conclusion, Mrs. Akanji noted that the systemic approach of the project if continued would ensure the realization of the objective of a world class Central Bank, which could be a model for the WACB being nurtured by WAMI. She however emphasized that there must be a perfect interplay between strategy and team work in the Bank.

On its part, the Management of WAMI noted that the project is a laudable one which falls in line with what is expected of other National Central Banks in the WAMZ. Thus, the other NCBs should do something similar even if on a much reduced scale. It was noted that the Central Banks must have the right size so as to be viable and well focused on their core objectives. It was mentioned that WAMI has so far performed well with good prospects for the achievement of its mandate with continued political support. The Institute has been able to interface with the National Central Banks as they have been playing significant role in the Institute's Work Programme through active participation at its technical meetings and seminars. The Director General appealed to the Central Bank of Nigeria for continued support.

#### III. Meeting With Director General, Departments/Units

##### 1. Meeting With the Director General.

The Director General reviewed the events that led to the establishment of the Institute, beginning from the Second Summit of the Authority of Heads of State and Government of ECOWAS in December 1999 in Lomé,

Togo. He informed Mrs. Akanji that WAMI was a major fallout of the Agreement signed by the Heads of State and Government in Bamako, Mali in December 2000. The tight timeframe for achieving Monetary Union has always been advanced as a factor that could work against achieving this objective. The Institute is however applying itself to the technical aspects of its mandate while the timeframe, which is largely a political issue, would be resolved at the appropriate time.

The Director General informed Mrs. Akanji that interface with the National Central Banks has been very productive. He, however, requested that the National Central Banks should ensure that adequate and reliable data are made available to WAMI. The same set of data should be sent to the Institute and the multilateral Institutions. It is important to get the most reliable data from member countries for assessment of status of macroeconomic convergence.

There has been cooperation from the National Central Banks but the Research Departments should develop more interest in ensuring the successful implementation of the Work Programme of WAMI. The issue should not be whether the project is possible or not, it should be an intellectual challenge to all of us. It is a new dimension in economic policy making in the sub-region and we should take advantage of it. The areas where problems are envisaged should be tackled by all to ensure success.

Responding, Mrs. Akanji thanked the Director General for the opportunity of the meeting. She advised that the spirit with which the Institute started should be sustained. The objectives of WAMI should be focused on while distracting commentaries should be ignored. The Institute should also apply advocacy approach to break down the barriers to political authorities. Powerful and well-organized NGOs should also be used to link up with the grassroots.

The Director General thanked Mrs. Akanji for her suggestions but informed her that the Institute has tried since it commenced

operations to get across to the political authorities in the member countries. In 2002, this approach would be intensified.

## **2. Meeting With The Research Department**

The discussions principally centred on issues relating to data and ways of improving the surveillance efforts of the Institute as well as making the Institute's output available to the political authorities. On data, the meeting noted the poor quality and the long time lag in data and suggested that, WAMI should request member countries to make available to her the same data set they supply to the IMF on weekly basis. It was however, suggested that WAMI may have to redesign the format for her data needs which may be slightly different from that of the Fund but the frequency should be the same. With respect to the mode of transferring data to the Institute, it was agreed that member countries should be reminded of the last Convergence Council's decision that all the Central Banks should be web-enabled by September 2001. Letters of reminder should be sent to the Governors and relevant Ministers.

Concerning access to political authorities on the need to implement the Institute's recommendations arising from the surveillance reports, it was suggested that a two-prong approach be adopted. The first would be to arrange forum for surveillance teams to discuss with the political authorities. Secondly, WAMI should strengthen her link with other surveillance institutions, especially the IMF to ensure that the general framework for the implementation of the recommendations are streamlined and tacitly linked to some perceived benefits from the Fund.

## **3. Meeting With Finance And Administration Department**

The Director of Finance and Administration (DFA) elaborated on the Work Programme of the Institute in general and that of the Finance and Administration Department in

particular for 2002. On the Work Programme of the Department, the DFA informed Mrs. Akanji that the Convergence Council at its next meeting in Dakar would consider the proposal on the operational structure of the WACB.

He noted that the framework of the restructuring exercise at the CBN would be of benefit to the WACB as it is expected to have a slim and well-focussed professional workforce. On the Stabilization and Cooperation Fund (SCF), the DFA noted that it is intended to provide a common pool of resources to assist in ameliorating the adjustment problems of member countries that many face unexpected shocks during the process of convergence. Modalities for its operations including investment options and choice of Fund Manager have been considered.

Responding, Mrs. Akanji advised on the need to have a very strong and versatile Fund Manager that has the capabilities to bring good returns without much risk. In this regard, she suggested that in addition to the African Development Bank (ADB), the Institute could explore the services offered by Record Currency Management of England. The company has a good track record and it is currently rendering services to a number of Central Banks including the the Central Bank of Botswana.

She also noted that a high level of IT support was essential for the Finance and Administration Department of the WACB to be efficient. Finally, she advised that the Institute should adopt the advocacy approach to get the support of the political authority for the activities of the Institute.

Mrs. Akanji suggested that the Department should develop job descriptions for the staff of the Institute where this does not already exist. There is also a need to identify the various processes of the Institute and determine appropriate benchmarks for job evaluation and staff appraisal on World Class basis.

#### 4. Meeting With Operations Department

The Director of Operations, Mr. S. Bah welcomed Mrs. Akanji to the Department. Each officer gave a brief resume of the work done so far and the prospects for 2002. The discussions centred on the following tasks: Sensitization Programme and the role of the National Sensitization Committees; Payments system and Development of Communication to facilitate the process; Currency Preparation and Management; Name of the Common Currency and Publicity when the name has been chosen; and Bank Supervision.

There was exchange of views on the above issues. Mrs. Akanji shared her experience on each subject and made the following suggestions:

- i) WAMI could approach private banks in respect of funding the Sensitization Programme;
- ii) The name of the currency should be widely publicized. In doing so, WAMI should prepare a write up explaining the selection process and choice of name;
- iii) The private sector should be encouraged to handle the clearing System as in Nigeria, for better efficiency.

In conclusion, the Director of Operations, thanked Mrs. Akanji for her visit as well as her proposals, which the Department will pursue vigorously in 2002.

#### 5. Meeting With The Legal Unit

The Head of the Legal Unit gave an overview of the activities of the Legal Unit. Mrs. Akanji mentioned that having read most of the Legal documents prepared by the Institute she has had a greater insight on the demands on the National Central Banks to harmonise their legislations in line with the Agreement of the WAMZ and the WACB Statutes. Mrs. Akanji emphasized the need for a well-focused sensitization to ensure that required amendments are undertaken.

#### 6. Meeting With The Internal Audit Unit

The Head of the Internal Audit Unit, Mr. D Adekola briefed Mrs. Akanji on the current Auditing activities being undertaken. He informed her that the Unit, in collaboration with the Finance and Administration Department has put in place, the financial rules and regulations for the Institute and this is being followed in the course of day-to-day activities of the Institute. The Institute has also requested for Audit manuals from member Central Banks with a view to harmonising auditing procedures. Also, a Workshop would be held in the first quarter of 2002 for Heads of Internal Audit Departments in NCBs to discuss the auditing procedures for the WACB.

In response, Mrs. Akanji suggested that the Treasury Department of the IMF could be contacted to assist the Institute in Auditing procedures. The Department is currently visiting some countries for this purpose. She also suggested uniform coding system with prefix for member countries and advised that emphasis should equally be placed on equipment auditing and asset valuation.

#### 7. Meeting With The Technical Adviser

The Technical Adviser informed Mrs Akanji that four units form the Directorate of the Institute. These are the Legal Unit, the Internal Audit Unit, offices of the Technical and Policy Advisers. The office of the Technical Adviser collaborates with the various departments in the preparation of documents to ensure right standard and conformity with the norms.

The Office also supervises the Network Administrator to ensure that materials are current and updated. It also ensures proper conduct of the various meetings of the Institute.

Mrs Akanji noted that the Institute has accomplished much within a short period of time. She reiterated the need for well-focussed sensitisation and advised that there

should be strong links with the Embassies, in addition to interaction with Chambers of Commerce in the various countries.

## 8. Meeting With The Policy Adviser

The Policy Adviser welcomed Mrs Akanji and presented an overview of Policy Issues in WAMI operations. All policy aspects of the WAMZ Project fall under the purview of the Office of the Policy Adviser. He coordinates the activities of the Departments and Units on policy issues and provides interface with external Consultants.

The Policy Adviser noted that WAMI had realised the need to create an intellectual resource base both for itself and the WACB. Thus, seminars and workshops and technical meetings are organised to bring experts from member Central Banks and other organisations to contribute to some aspects of the Institute's activities. Seminar series, Staff papers and Economic Journals are also published by the Institute, which the Policy Adviser coordinates.

The Policy Adviser reviewed the Technical papers prepared by the Institute, which were discussed at the meeting of the Convergence Council and the authority of WAMZ in Dakar, Senegal. He noted certain areas of concern in the implementation of the Work Programme of the Institute. These are the data problem that should be resolved in order to make macroeconomic surveillance more meaningful and the preoccupation of critiques of the project on the time frame considered to be too short.

The Policy Adviser urged all member countries to adopt the GDDS of the IMF to make macroeconomic surveillance more useful. He noted that the Institute was given a mandate to execute within a time frame and it is doing all that is possible to ensure its realisation on schedule. At the deadline of December 2002, the political authorities would take a decision based on the assessment by WAMI and the facts available to them.

Mrs Akanji stressed the need for member countries to adopt the IMF General Data Dissemination System and hook up to the IMF Bulletin Board.

## 9. Meeting With The NetWork Administrator

The Network Administrator described the configuration of the Institute's Network. He stated that there are 32 computers with a local area network (LAN) unified by 8 hubs; this arose from the fact that the network system for the building was designed before WAMI took up tenancy. The Institute's Website is hosted by the ECOWAS Community Computer Centre in Lome but operated by WAMI in Accra. WAMI intends to deploy the Institute's database to the NCBs so that the Banks can update them. This will help in improving data dissemination process.

Mrs Akanji noted that there should be an additional staff to assist the Network Administrator for effective management of the Website and the entire network of the Institute.

## IV. Wrap-up Session

Mrs Akanji reviewed the discussions held with the various departments and units and informed the meeting that she was highly impressed with the copious and highly technical and intellectual documents the Institute has produced so far. She noted that the most critical aspects of integration process were macroeconomic surveillance and sensitisation to carry along all stakeholders. She noted that the issue of data should be tackled urgently. The same set of data should be produced for all users of statistics to make comparison worthwhile. She suggested that member countries should adopt the IMF template.

On sensitisation, Mrs Akanji advised that WAMI should adopt a well-focussed approach in marketing the project. The National Coordinators should be guided by WAMI on the content of sensitisation

materials to ensure the dissemination of the right intent of the Institute.

She also suggested the need for a strong advocacy to enable WAMI link up with the political authorities as the need arises. The services of diplomatic missions and international organisations would also be useful in building a strong network of connections. The Institute should also device a system of reaching out to the NCBs on its Work Programme in order to educate the staff on the project. On the Stabilisation and Cooperation Fund (SCF), Mrs Akanji recommended that the Institute should engage the services of an aggressive Fund Manager for placement of the resources of the Fund

She also suggested that the organisational structure of the WACB should not be bloated. There should be proper job description and evaluation. There should be a Strategic Executive that would be engaged in policy advocacy for the WACB. In addition, a benchmarking strategist who should be versatile in IT should be in the work force of the WACB. The staff of the Institute should be benchmarked in order to be competitive, especially when staffing for the WACB would be considered.

Finally she advised that auditing should go beyond financial resources to include human resources auditing. The assets of the Institute should also be audited and revalued where necessary.

Mrs Akanji was applauded for her brilliant presentation. However, she was informed that her suggestions would be very useful in 2002. In the meantime, her suggestions on networking, especially breaking barriers to political authorities would be more forcefully addressed, although the Institute has made modest achievement on this front.

The Director General thanked Mrs Akanji for the visit and solicited for continued support of the Central Bank of Nigeria for WAMI activities.

## V. Vote of Thanks

The Director of Administration moved the vote of thanks. He thanked Mrs Akanji for her valuable suggestions and contributions, which would assist WAMI in executing its Work Programme.

### EUROPEAN CENTRAL BANK AND WAMI HOLD WORKSHOP ON MONETARY UNION IN ACCRA

The European Central Bank (ECB) visited WAMI on Mission from February 13 to 14, 2002 to exchange ideas with the Institute on the progress made so far in the WAMZ and to discuss areas where the ECB could be of assistance. A set of questions were exchanged between the two institutions prior to the Seminar on issues of interest to each institution. Answers to these questions formed the basis of the general discussions after formal presentation. The road to monetary union was traced by the facilitators from the ECB, led by Mr Christian Thiman. The answers to some questions posed to WAMI by the ECB are summarised as follows:

#### Remaining Challenges for WAMZ Countries with respect to Convergence Criteria

Significant challenges remain for all countries to reduce their budget deficits. Many countries of the Zone are dependent on international trade for revenues and they have narrow tax bases. In addition changes in international commodity prices have impacted negatively on fiscal performance in many countries. This is compounded by a need for government expenditures to be sustained to provide basic services to reduce poverty. In the process, many countries continue to face significant challenges in being able to implement a tight fiscal policy.

Another challenge is to strive to meet the criterion on foreign exchange reserves which requires that countries should have a minimum of six months of import cover by end 2002. While The Gambia and Nigeria could with little effort meet this requirement,

the remaining countries of the WAMZ may not be able to satisfy this criterion. It is unlikely that Ghana, Guinea and Sierra Leone will in the short term be able to restructure their economies in order to meet this target.

### **The role of Exchange Rate Stability In Nominal Convergence**

The exchange rate provides a reference point for countries to assess their efforts at nominal convergence in the WAMZ. This is based on the assumption that foreign exchange markets in the WAMZ are competitive and therefore any lapses in liquidity (monetary and fiscal policies, and domestic price changes) would translate into exchange rate changes. This assumption for the countries of the WAMZ may hold in the short term. This is not to suggest that there may not be other sources of exchange rate instability such as productivity shocks, speculation, etc. The WAMZ exchange rate mechanism is to provide a complementary framework which in conjunction with the convergence criteria would be used for assessing convergence. The need for convergence on a sustained basis is of paramount importance to the WAMZ and an assessment of convergence will be made not only using the exchange rate stability and convergence criteria but also judgement using information on projections on the future behaviour of these macroeconomic variables.

### **Institutional Design of the WAMZ**

The WAMZ has the Following Institutional Framework.

- i. The Authority of Heads of State and Government of the five member states is the Supreme Authority of the Zone. It decides on matters referred to it by the Council.
- ii. The Convergence/Governing Council of Ministers and Governors of Central Bank is the supervising authority of the Zone. Its membership is made up of Ministers of Finance, Foreign Affairs, Trade,

Economic and Regional Cooperation and Governors of Central Banks. The Governing Council (to be established when the common central bank takes off) comprises of Ministers of Finance and one other Minister from each member country.

- iii. The Technical Committee – The advisory technical group of experts drawn from the National Central Banks, relevant Government Departments and the ECOWAS Secretariat.

### **Institutions of the Zone**

- The West African Central Bank
- The National Central Banks – National branches of the WACB, comprising existing National Central Banks.
- The West African Monetary Institute – the Interim Institution
- The Cooperation and Stabilisation Fund – the Solidarity Fund

### **Decision-Making bodies of the WACB**

The Board of Directors – 11 members comprising of six Executive Board members and five Governors of the WACB national branches. The Board of Directors determines monetary policy.

- The Executive Board - six members comprising the President, 2 Vice Presidents and 3 Executive Directors. The board ensures the implementation of monetary policy decisions and directives of the Board of Directors (BOD).
- The Board of Directors of National branches of the WACB: Implements monetary policy at national level.

The importance of asymmetric shocks would be empirically determined through appropriate econometric modelling. Preliminary investigations suggest that they may be important as deviations of output from trend in the countries of the zone do not seem to be well correlated. This is not

surprising for a country like Nigeria, which depends mainly on oil. Even within the non-oil producing sub group, shocks to output may not be strongly correlated. There is no doubt however that as non-oil primary producing countries, these countries share some common shocks. The appropriate response would be for each country to use its fiscal policy to counteract specific shocks subject to the limitations of the convergence criteria. In addition a Federal scheme may be needed to transfer resources across the region. This is part of the design of the Stabilisation and Corporation Fund. Countries that experience negative shocks may apply to the Fund for relief and those that experience positive shocks may transfer resources to augment the Fund. This is the principle of solidarity.

### **Recent Developments Relating to the Planned Creation of Stabilisation and Cooperation Fund (SCF)**

In December 2001, during the Third Summit of the Authority of Heads of State and Government of the WAMZ, the following decisions, among others, relating to the SCF were taken:

- Member States shall make an initial contribution to the SCF of US\$50.0 million, which amounts to 50% of the capital of US\$100 million in two equal instalments, not later than 28<sup>th</sup> February 2002 and September 30, 2002, respectively.
- The SCF shall commence operations on March 1, 2002.
- WAMI is encouraged to sustain its contacts with donor agencies in order to solicit their support by way of grants and voluntary contributions to the capital of the Fund.
- The African Development Bank (ADB) is appointed as the External Fund

Manager of the SCF\*.

- At the commencement of the operations of the WACB, the SCF may be transformed into a development agency/bank providing financial assistance to Member States or as the Authority may deem fit.

After having notified the ADB of its appointment as External Fund Manager and reminded countries about the payment of their contributions, WAMI is preparing the ground for the commencement of operations by March 2002.

Relating to the decision to solicit donor agencies support for the supplementation by way of grants and voluntary contributions of the capital of the Fund, WAMI has already identified a number of potential donors and will be contacting them soon to sensitise them about WAMI's plans.

### **WAMZ AND WAEMU**

#### **The Two Zones are Complementary to The Single Currency Union for the ECOWAS Sub-region.**

The Heads of State and Government of WAMZ at their Third Summit in Dakar, Senegal, December 20 2001, decided that the two Zones should work together for the name of the common currency to be adopted by ECOWAS.

The WAEMU and the WAMZ will collaborate on issues of the single currency and the march towards full merger of the Zones.

The Governor of the BCEAO is an observer at the meetings of the Committee of Governors and the Convergence Council.

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\* In view of limited resources, there is the need to subcontract the management of the Fund's revenues to an investment bank while administrative support for the SCF could be sustained by WAMI at the initial stage.

## Prospects of Pegging the Region's Common Currency to the Euro As It is Already the Case of the CFA Franc

The common currency of the West African Monetary Zone (WAMZ) needs not be pegged to any currency. Domestic economic fundamentals and the competitiveness of the external sector would provide the desired peg for the currency. This is without prejudice to the fact that the dollar or the euro could be adopted as the reference currency for determining the external value of the domestic (common) currency. At the moment, the dollar would be the reference currency for the Exchange Rate Mechanism (ERM) of the WAMZ. The issue of a peg to the dollar or euro in the real sense does not arise since market forces in the foreign exchange market would determine the exchange rate of the common currency. The common Central Bank would only intervene to smoothen exchange rate movement towards the equilibrium path. What appears more relevant for the WAMZ is the decision to adopt the dollar as the reference currency rather than the euro. Currently, all the countries in the WAMZ quote their exchange rates in terms of the dollar. In addition, most of their external reserves are held in dollar.

The historical antecedents of the CFA peg to the euro are well known. The arrangement is predicated on a convertibility arrangement between the French Treasury and the CFA franc Zone countries. This arrangement was preserved at the launch of the euro, thus guaranteeing the convertibility of the CFA franc into euro. It is not very clear if the CFA franc peg to the euro would be sustained over a long period of time, owing to the possible misalignment of its exchange rate.

Under the framework for ECOWAS single currency, the CFA franc Zone and the WAMZ would merge and adopt a common currency that would be issued by a common central bank. The exchange rate arrangement would become very relevant to ensure successful merger. It is either that the

currency is pegged or floated. If an agreement is reached to peg rather than float, and it is also agreed that the euro be adopted, then the relevant authorities in ECOWAS would have to negotiate with the EU. It is not likely that the EU will approve a scheme similar to the current CFA franc peg to the euro. It is even envisaged that with a single monetary Zone in West Africa, the CFA franc Zone would cease to exist.

## Prospects for Continent – Wide Single Currency Under African Union Treaty

The African Union Treaty envisages a single currency eventually. The strategy adopted is to build on the use of the five regional integration groupings on the continent, ECOWAS, ECCAS, SADC, COMESA and the Maghreb Union as pillars in the construction of the African Union.

Under this strategy each of the five regions is to have a single currency issued by a common central bank. The final process will be to integrate them into one monetary Zone. The prospects for achieving this depend on how fast each of them is able to establish its own monetary union. In West Africa, the process is on-going, while in ECCAS, the process is already completed under the CFA franc Zone. In the remaining three major groupings the process of monetary integration is yet to gather momentum in spite of some form of monetary cooperation among some countries in the SADC and COMESA groupings.

## ECB-WAMI Co-operation

Preferred avenues for further contacts between the ECB and WAMI should include the following:

- ECB to collaborate with WAMI in seminars/workshops organized by WAMI on specific topics such as foreign reserves management etc.;
- Study visits by WAMI officials in specific areas;

- Exchange of information and research findings;
- Discussions on the design of currency and management of changeover modalities;
- Discussions on framework for currency management in a monetary union; and
- Framework for cross-border payments.

WAMI on its part asked the following questions to which answers were provided.

### Reserve Pooling and Management

1. What are the modalities of reserve pooling and management by the ECB; what are the principles, guidelines and procedures adopted in the sharing of responsibility between the ECB and NCBs?
2. What was the rationale for the adoption of the framework of partial pooling of reserves?
3. With the introduction of the Euro, would the system of partial pooling of reserves be retained or abandoned? Or is it implied that reserves would be fully pooled automatically?
4. What are the guidelines for reserves management including portions of earnings on reserves paid to fund managers and national central banks?

### Exchange Rate Mechanism

What were the guidelines for the operations of the European Exchange Rate Mechanism (ERM) issued by the European Monetary Institute (EMI) to central banks?

### Monetary Policy

Are there in existence any guidelines on the harmonisation of monetary policy instruments and procedures?

### Operational Issues

1. What was the rationale behind the decision of the ECB to circulate Euro notes and coin three years after its launching?
2. The design of currency and management of changeover. As efforts are being made to have a currency for the West African Monetary Zone (WAMZ), it would be advisable to learn from the experience of ECB on the choice of themes for the currency such as colours, features, etc. What were the critical issues involved in the changeover exercise that preceded the introduction of the Euro. Are there pitfalls that can be avoided?
3. What was the strategy adopted in the sensitisation programme for the Euro. What was the role of the NCBs? What lessons can guide WAMI?

### Payments System

In the run-up to the monetary integration in Europe, TARGET system was adopted to improve and standardise payments systems of member states. What are some of the main technical and institutional features of the TARGET system? Have all the countries adopted the system?

### Legal and Institutional Issues

1. What were the considerations for adopting a federal model and not a unitary model in the institutional design of the ESCB/ECB.
2. In addition to the signing of the statute of the European system of Central Banks and of the European Central Banks, member states were also required to carry out amendments in their Central Banks Acts. What was the rationale for this? Why didn't the ECB statutes replace National Central Bank Acts altogether?
3. There are certainly a lot of legal issues arising from the movement to a

monetary union. A discussion of some of these issues from the ECB's experience would be welcome.

4. It is contemplated that financial legislations within the Zone would be harmonised. What is the experience of the ECB in this area? What are the lessons for the WAMZ?
5. There is in existence an EC directive on complete liberalisation of capital movements. What is the experience of the EC in the implementation of this directive? Was there any adverse impact of implementing this directive on the foreign exchange and capital markets?
6. What are the perspectives of the ECB on the decentralised system of banking supervision? Are there plans to adopt the centralised central bank approach or the separation approach in the future?
7. What was the procedure adopted by the ECB to recruit its pioneer staff? Were some of the staff of the EMI retained to work for the ECB? If so, what were the criteria applied?

## **DIRECTOR GENERAL LAUNCHES NEW BOOK**

On February 14 2002, the Director General of WAMI, Dr. M. O. Ojo launched a new addition to his growing list of published books. His book entitled "Principles and Practice of Monetary Management in Nigeria" was formally presented to the Ghanaian public in Accra at a colourful ceremony graced by the Deputy Governor of the Bank of Ghana, Mr E. Asiedu-Mante, who presented the Book, representatives of the European Central Bank (ECB), who were on Mission to WAMI, scholars from the University of Ghana, Legon, Staff of Bank of Ghana and WAMI, and the Mass Media from Ghana and Nigeria . Many copies of the book were purchased at the ceremony. The Director General kindly accepted to

autograph the copies that were purchased at the ceremony and subsequent purchases.

## **The Remarks by Mr. Asiedu-Mante at the public presentation are reproduced below:**

The Director General of WAMI,  
Members of the Press,  
Distinguished Ladies and Gentlemen,

1. It is with great pleasure that I accepted to undertake the public presentation of this Book entitled "Principles and Practice of Monetary Management in Nigeria". Apart from my disposition to intellectual challenges, I have found this book useful, especially as I have become familiar with the subject matter owing to the assignments that I have had to handle as a career central banker.

2. As you are probably aware, I have been involved in monetary management in the Bank of Ghana for over two decades. Apart from being involved at the policy level, I have also been privileged to oversee banking supervision in Ghana, a key component of effective monetary management. You will agree with me that lapses in banking supervision could result in bank failures, financial sector instability and the less than optimal achievement of the goals of monetary management.

3. The pursuit of sound monetary policy is predicated on a sound financial system, which could be fostered by effective and efficient banking supervision. While the functions of monetary policy and banking supervision are mutually reinforcing, the environment for monetary policy formulation appears to be very critical for successful implementation. It is in this regard that the experience of Nigeria would be relevant in assessing trends in the economies of the other members of the West African Monetary Zone (WAMZ) and indeed in the whole of ECOWAS. Furthermore, the Nigerian economy is the biggest in terms of a number of indicators, such as the Gross Domestic Product, industrial capacity, number and

depth of financial institutions, among other factors.

4. It is critical to understand the money supply and demand process, and the way these aggregates are managed to achieve the defined objectives of the Central Bank and overall macroeconomic management in Nigeria. This is because developments in Nigeria would play a critical role in the process of achieving a single currency for the WAMZ and ECOWAS.

5. A survey of the book showed that it succeeded largely in blending theory with practice, probably because of the long experience of the author as a staff of the Central Bank of Nigeria.

6. The author structured the book in such a manner that theoretical issues and institutional framework preceded the analysis of the monetary policy framework in Nigeria. This approach ensures that the basic elements of the theoretical foundation of monetary policy are presented in a lucid manner and for general applicability, especially for readers and researchers who are interested in the theoretical dimensions of monetary management.

7. The institutional environment for monetary policy formulation and implementation in Nigeria reviews the economics of the financial system in addition to the structure and institutions in the Nigerian financial system. A very clear distinction was made between banks and other financial institutions with the objectives of the two segments of the financial system clearly defined.

8. The process of monetary policy formulation and implementation in Nigeria is presented immediately after the institutional environment. The author found theoretical bases for the various frameworks that Nigeria applied over the years. The transition from rigid monetary controls to market based instruments of monetary management was presented in addition to

factors that led to the change and benefits expected.

9. The author also presented the challenges to monetary policy, limitations and constraints in the Nigerian economy. A number of the challenges and limitations identified are common to most of the economies of the WAMZ countries if not all.

10. The author offered some ray of hope that with the on-going restructuring of the Central Bank of Nigeria to become one of the most efficient and effective central banks in the World, the constraints to monetary management would be mitigated. I want to recall that the Bank of Ghana has already undertaken a similar exercise, notwithstanding the fact that the process of reforms is continuous.

11. Permit me distinguished Ladies and gentlemen to commend the author for a scholarly publication. This book will be very useful to policy makers as guide for practical decision-making, students as basic text, researchers as reference material and university teachers as teaching aid.

12. Distinguished Ladies and Gentlemen, I have the honour to present this book to this august gathering and to recommend its readership to all of you and the general public, especially the policy makers and the academia owing to its rich content and clarity of presentation.

Thank you.

**The Speech of the Director General is also reproduced as follows:**

Deputy Governor,  
Bank of Ghana,  
Distinguished Colleagues,  
Media Executives,  
Ladies and Gentlemen.

I am delighted to stand before you today to make these few remarks on the occasion of the public presentation of my book, "Principles and Practice of Monetary Management in

Nigeria". This occasion is historic for me as this is the first time my publication will be presented to a public forum. I have undertaken previous publications, which were not presented in a similar manner.

2. For an author, an important question concerns the reason why a particular work was undertaken. For us who are engaged in academic pursuit, the answer is that we have developed the habit of writing and, on occasions, such writing may result in books as has happened in this case. Beyond this general orientation, I had always believed that I would write a book to mark the end of my academic career at the Central Bank of Nigeria (CBN). I am grateful to the Almighty for actualising that wish.

3. I had no problem selecting a subject which relates to monetary policy. This is a subject I have been much involved in for over ten years during which I served as Director of Research of the CBN. My aim was to present in a simplified manner the various issues that surrounded the formulation and implementation of monetary policy in Nigeria in the last two decades.

4. One of the issues in monetary policy is that its make-up cannot be divorced from the theoretical foundations. It is true that the theories, especially in the social sciences, could be controversial, but they form the foundations of policy actions. Invariably, also, the thrusts of the theories are in order, but the environments in which they are to be applied are not ideal. In this book, I have tried to explain in the simplest terms some of the important theories that guide the monetary authorities in the application of monetary policy instruments.

5. Institutions of the financial sector are the intermediaries for the realisation of the objectives of monetary policy. The kinds of institutions and their capacity determine to a large extent the manner in which the actions of the monetary authorities are transmitted into the economy. This is the basis for my review of the financial sector players in Nigeria. Like in many developing countries,

the financial markets in Nigeria are portrayed as relatively weak, but are evolving quite rapidly. Monetary policy therefore is limited to that extent.

6. Monetary policy frameworks are generally standardised, but have in-built flexibility for specific applications. Whether one is applying the simple analytical models or sophisticated macroeconomic models, the answers the monetary authorities want for their actions are usually similar. The monetary authorities in Nigeria have been quite pragmatic in applying the available frameworks especially as the database is still being refined. The monetary policy framework applied in the days of economic controls has changed significantly. In those times, a lot of discretionary actions were needed to determine, for example, permissible credit ceilings, sectoral allocation of credit and interest rates. In the period from 1992, the monetary policy framework became less discretionary and more market-based.

7. Monetary policy in Nigeria could have achieved more in terms of its primary objectives but for the presence of some fundamental constraints, such as the shallowness of the financial markets, inadequate information to guide the actions of the monetary authorities and fiscal dominance, among other factors. With the granting of instrument autonomy to the Central Bank of Nigeria and its on-going restructuring so as to reposition itself for enhanced outcomes of monetary policy, the Book is optimistic about the future effectiveness of monetary policy in Nigeria.

8. I want to thank my professional colleagues for the useful association I have had with them in my long career. I want to thank the Management of the Central Bank of Nigeria for sponsoring the publication of the book. Let me also thank Mr E. Asiedu-Mante for accepting to chair this meeting and present the book to the public. I cannot forget my friends who organised this event on my behalf. I am grateful to all the

invitees and to WAMI for permitting the use of its Conference Hall.

9. God will surely bless all of you who have done me this great honour and I sincerely thank you for your kind attention.

## **DIRECTOR GENERAL UNDERTAKES MISSION TO NIGERIA**

During the mission, the meetings held with the ECOWAS Executive Secretary, Nigeria's Honourable Minister of Cooperation and Integration in Africa and current Chairman of the Convergence Council of the WAMZ, and the Governor of the Central Bank of Nigeria who is the current Chairman of the Committee of Governors of the WAMZ, were very fruitful. A lot of insight was gained by WAMI's delegation on the perception by the various institutions visited on the Second Monetary Zone project.

### **1. General Summary And Conclusions**

The conclusions drawn from the meetings are summarised as follows:

- i) The political will still exists for the second monetary zone project. ECOWAS and Nigeria would want the project executed to the logical conclusion in the hope that it will facilitate the emergence of a single monetary zone in ECOWAS. Towards this end ECOWAS will continue to play a dominant role in facilitating the process while Nigeria will continue to provide support for WAMI including prompt payments of its financial obligations towards the WAMZ project.
- ii) The name of the common currency of the WAMZ is ECO as recommended to the Summit of Heads of State and Government by the WAMZ in Dakar, Senegal by the Convergence Council. The name should be upheld and presented to the meeting of WAMZ/UEMOA experts on the name of ECOWAS common currency. WAMI should prepare a well articulated paper for discussion at the meeting.

- iii) Since ECO has been chosen as the name of WAMZ common currency, all obligations and promises entered into by WAMI in respect of its competition on the name of WAMZ common currency should be fulfilled. WAMI should therefore go ahead and award prizes to the winners.
- iv) Sensitisation is critical for the success of the WAMZ project. As a result, efforts would be made to intensify the sensitisation of all stakeholders on the project.
- v) The idea of the super fast track approach arose from the need to avoid wasteful expenditure on currency printing and issue. Since the second zone would merge with the first zone in 2004 to pave way for an ECOWAS single currency and monetary zone, it will not be cost effective to print and circulate a currency that would be abandoned after one year. Owing to the huge cost of currency, it was considered appropriate to use the existing institutional framework to work towards a single currency for ECOWAS. Thus, a two-stage currency approach may give way to a one-stage currency approach, the details and modalities of which would be tackled by WAMZ/UEMOA experts.
- vi) Owing to cost implications, WAMI should design a virtual currency framework along the line of the European model for the WAMZ. The currency may not necessarily come live on its introduction until such a time that the conditions are right and conducive. In addition, the WAMZ should operationalise an ECO unit of account as an integral part of WAMZ exchange rate mechanism (ERM). The cross rates in the WAMZ ERM would define relative strengths of the various currencies and their worth in terms of the ECO. The establishment of ECO unit of account, which could be trade weighted or expressed in terms of dollar or SDR,

would popularise the ECO and show our resolve and determination to achieve the objective of a single currency for the WAMZ. This would also ensure that the UEMOA is brought on board without further delay in the pursuit of a single currency for ECOWAS. What the ECO unit of account means is that we should immediately determine the conversion rates of the various WAMZ currencies into ECO in the context of WAMZ ERM.

- vii) There may not be need to dissipate energy struggling for the Headquarters of the WACB since the Bank is expected to operate for only one year before the merger of the two zones. What should be done in the circumstance is to organise the WAMZ countries around WAMI and negotiate with the BCEAO/UEMOA on a single currency for the whole of ECOWAS. If the two-stage currency approach is to be pursued as originally designed, then a bank would be ideal. On the other hand, if a direct movement to a single currency is preferred owing to cost factors, then WAMI would have to carry the burden of organising WAMZ countries towards the achievement of a single currency for ECOWAS.
- viii) A monetary union is more involving and more rigorous than mere printing of currency. The focus should be on the achievement of stipulated convergence criteria. In this regard, WAMI should continue to monitor the compliance of member countries with the convergence criteria and provide appropriate remedies that countries should apply to reverse deteriorating trends whenever they occur. WAMI should also ensure that databases and statistics produced by member countries, which form the basis of WAMI's surveillance of their economies, are comparable. These problems and others that impact on the ability to achieve the targets set for the second monetary zone should be

resolved before the monetary union is fully operationalised.

If the WACB is established as intended in 2003, it should operate a virtual currency system. On the other hand, if a one-stage currency arrangement is settled for, WAMI should operationalise the virtual currency model.

- ix) At the moment, it may not be helpful to speculate on the motive for the decision that a common name should be found for ECOWAS single currency by experts from WAMZ and UEMOA. WAMI should prepare a well articulated position paper on the subject for discussion at the meeting. A meeting of WAMZ Technical Committee should hold before the meeting of WAMZ/UEMOA experts. This could allow for cross exchange of ideas on our part so that we achieve the maximum benefits from the meeting.

If discussions at the meeting are geared towards facilitating the achievement of ECOWAS single monetary zone, it will be desirable. On the other hand, if discussions are unproductive and they are intended to slow the pace of the second monetary zone and achievement of ECOWAS single currency, it will be obvious. At this point we should abandon the talks and concentrate on our chosen path. We should not at any point abandon what we are doing. The factors that led to the endorsement of the second monetary zone initiative by the Authority of Heads of State and Government of ECOWAS at the instance of Nigeria and Ghana are still very much with us. These problems are being addressed by WAMI. Any change in strategy should be to facilitate and not to inhibit the process towards ECOWAS monetary integration.

- x) WAMI has proved to be a credible institution with technical expertise. The able leadership of the Director General with the active support of his staff has

produced enviable results. WAMI should sustain this track record of excellence and continue to provide the fulcrum for the WAMZ countries in the move towards ECOWAS single currency.

- xi) The WAMZ initiative is an important catalyst in the achievement of ECOWAS single monetary zone objective. The programme should be pursued to its logical conclusion in the context of ECOWAS monetary cooperation programme. The framework provided by WAMI for liaison among the member countries of the WAMZ is critical and should be maintained until the ECOWAS single monetary zone project is accomplished. The WAMI provides a counterforce for the UEMOA to be serious in efforts at speeding up the process towards ECOWAS single monetary zone. For ECOWAS, the WAMZ remains a priority project and indeed the most historic breakthrough for ECOWAS Secretariat in the drive towards a single monetary zone for the whole of ECOWAS.
- xii) The tasks for WAMI to implement are enormous and difficult but the Institute has a competent leadership and a crop of technically proficient staff. It is thus expected that the Institute would continue to discharge its responsibilities creditably, while being assured the desired political and financial support.
- xiii) The discussion paper prepared by WAMI is very informative and well articulated. It should be fine-tuned for the current Chairman of the Convergence Council to endorse and forward to member countries to properly sensitise them on developments.
- xiv) Meetings of WAMZ institutions should be held as scheduled unless there are problems owing to force majeure. This would sustain interest in the WAMZ project and ensure that target dates already stipulated are achieved.

## 2. Implications of the Conclusions

The implications of the outcome of the Abuja meetings are many but the most important and critical are as follows:

- i) WAMI would have to re-double its efforts in the implementation of its work programme. This is because the Institute would be confronted with various scenarios on its Work Programme, especially on the common Central Bank and the common currency in the course of the year when experts from WAMZ and UEMOA meet to deliberate on the name of a single currency for ECOWAS.
- ii) WAMI remains relevant and critical for the WAMZ countries as the platform for presenting common front on issues relating to ECOWAS monetary integration. If a two-stage currency model is maintained WAMI would wind up its operations in December 2002 so that the WACB assumes its roles in January 2003. On the other hand, a one-stage movement towards a single currency for ECOWAS would imply that WAMI would remain as the medium for the WAMZ countries to negotiate merger with the first monetary zone. In addition, WAMI would have to undertake the roles assigned to the WACB, pending merger with the first monetary zone.
- iii) The WAMZ countries are going along with UEMOA countries on the joint determination of a common name for ECOWAS single currency in the spirit of ECOWAS Monetary Cooperation Programme (EMCP). The WAMZ authorities do not want to be seen as undermining the EMCP. However, the WAMZ would continue with its programme, and indeed implement the currency component once it is discovered that there is a ploy to delay the WAMZ project.
- iv) With the current two-stage currency approach, the WACB would come on stream after the liquidation of WAMI. With a one-stage approach implied in a super fast track approach, the WACB would not be

established, but WAMI would assume its role. The duration would depend on the WAMZ authorities.

v) The conversion rate of national currencies into ECO would be established in conjunction with the WAMZ ERM and an ECO currency unit would be developed to popularise ECO in the WAMZ. The worth or units of each national currency in ECO would have to be determined as the ERM comes on stream instead of waiting until the change over period as initially intended.

vi) The stipulated convergence criteria should be satisfied by member countries before monetary union in 2003. This is a difficult ambition given the performance of member countries' economies, most of which have deteriorated vis-a-vis the situation a year ago. The achievement of the targets by all countries by end-December 2002 before the establishment of the WACB appears most unlikely. This may delay the realisation of the WAMZ objective of a single monetary zone in 2003 unless a political decision is taken. Even for the UEMOA countries, only Benin Republic attained the stipulated ECOWAS convergence criteria in 2001.

### 3. Recommendations

i) WAMI should brace up for the enormous challenges ahead. The demands on the Institute would increase in the run up to the single monetary zone for ECOWAS. As a result of changing views on the path towards a single currency for ECOWAS, the Institute would have to be ready all the time to provide well articulated positions on issues to be raised by the authorities of WAMZ and ECOWAS. WAMI should articulate various scenarios on the subjects on its Work Programme while settling for preferred options. The situation at the moment is very fluid. It is possible that issues on which decisions had been taken in the past could be re-visited and jettisoned concepts embraced. The Institute should therefore, be prepared as

the challenges are enormous and they are bound to task the professionalism of the staff of the Institute. The Institute should continue to be technically efficient. This is the only way to convince the authorities to see WAMI as the focal point for the WAMZ countries in their negotiation with the UEMOA on a single monetary zone for ECOWAS. The professional skills of the Institute should be accompanied by deft political moves to ensure that the authorities continue to support the initiative on the second monetary zone, which they designed, for WAMI to implement.

ii) The data problems in the WAMZ should be tackled urgently to make the job of macroeconomic surveillance and assessment easy, transparent and fair. Member countries should be urged to comply fully with the IMF GDDS as directed by the Convergence Council and Summit of Heads of State and Government of the WAMZ.

Macroeconomic surveillance and assessment would become a major preoccupation of the Institute once it is decided by the authorities that convergence criteria must be satisfied before monetary union. This will become very critical after December 2002 when the Institute was scheduled to wind up its operations to pave way for the WACB.

iii) Under current circumstances, the desired path to monetary union for the WAMZ is to establish the WACB in January 2003 as scheduled to operate the virtual currency system that WAMI would design. Once the Bank is in place, the monitoring of convergence criteria should continue and remedial actions, prescribed for countries that are not adhering to the criteria. On their own, the member countries may find it difficult to apply the necessary discipline, especially fiscal restraint. It is important to note that the UEMOA convergence criteria were introduced in 1994, several years after the establishment of the common central bank and the circulation of a common currency. The WACB will not finance government fiscal operations through money

creation. The WACB will ensure that money supply is not expansionary while government would keep expenditure within the limits of its revenue. In this way most of the convergence criteria would be satisfied and sustained unless there is persistent external shocks adversely impacting on revenue.

iv) The establishment of the Bank would demonstrate the resolve of the WAMZ authorities and provide a firmer basis for WAMZ's interaction with the BCEAO. In the alternative, WAMI could be re-designated as WAMZ's interim Central Bank after it would have wound up in December 2002. This will ensure that the initial programme of the WAMZ is somewhat adhered to without incurring costs in the development of infrastructure for the Bank. If WAMI is not re-designated and it is to continue to manage the monetary integration process of the WAMZ, there are dangers that merger negotiations could result in the accession of WAMZ's countries to the BCEAO through an assimilation process. The BCEAO is the Central Bank of the UEMOA; the WAMZ has none. The argument would be that the WAMZ should join the system already in place. The WAMZ would be at a disadvantage under such a scenario.

v) The framework for a virtual currency arrangement should be designed by WAMI during the second quarter of 2002. The Office of the Director General, Research and Operations Departments should collaborate in this endeavour.

vi) The Institute should develop an ECO unit of account as an integral part of the WAMZ Exchange Rate Mechanism (ERM) during the first quarter of 2002. This task should be accomplished by the Office of the Director General and Research Department. The ECO unit of account should be patterned along that of the West African Unit of Account (WAUA). The WAUA is a trade weighted conversion rate linked to the SDR and the dollar. The WAUA mirrors market exchange rates. For instance, at the close of business on February 21 2002, the WAUA was worth, 19.2988 dalasis, 8973.7982 cedis; 2479.8231

Guinean francs; 2896.5054 leones and 141.1138 naira.

On an impressionistic basis, it will not be out of place to apply market rates in designing the ECO unit of account. It will be safe to assume that one ECO equals 136 Naira, the rate the currency exchanges at the bureaux de change and the parallel market. This rate is only 5 units below the WAUA rate. The details would however be worked out.

vii) As a matter of priority, the Institute should prepare a well articulated paper on the name of WAMZ's common currency as a basis for discussion with the UEMOA/BCEAO at a meeting of experts, which the ECOWAS Executive Secretary has promised to assist in convening on April 18 2002 in Dakar, Senegal. The Office of the Director General and Operations Department should collaborate in this endeavour. Concurrently, the work on technical preparations for a common currency for WAMZ should progress as scheduled.

viii) WAMI should continue to implement its Work Programme. The additional assignments and the pro-active deliverables expected from WAMI in the course of the year should not in any way impair the effective performance of WAMI's tasks. WAMI should rise up to the challenges ahead and demonstrate its relevance in the scheme of things. The authorities of the WAMZ expect WAMI to continue to perform creditably.

#### **4. Conclusion**

The authorities of WAMZ are still committed to the second monetary zone project as a catalyst for the achievement of a single monetary zone for ECOWAS under the ECOWAS Monetary Cooperation Programme. WAMI will continue to enjoy the goodwill of the authorities as long as it continues to exhibit professional excellence in the delivery of outputs of its Work Programme. Any indiscretion on the path of WAMI could be counter productive and would in fact make

the Institute lose the credibility that it enjoys at the moment.

The staff of WAMI should re-double their commitment in the execution of the Work Programme of the Institute. The challenges ahead are enormous and they must be tackled swiftly as they occur. The demands on WAMI would increase in the course of the year. We should therefore, be prepared to deliver good quality output as we have always done.

### **NATIONAL SENSITISATION COMMITTEES INAUGURATED AND SENSITISATION CAMPAIGNS LAUNCHED IN SIERRA LEONE, NIGERIA AND THE GAMBIA**

National Sensitisation Committees (NSCs) have been inaugurated in all member countries of the WAMZ to enlighten the public and target groups on the WAMZ and the Common Currency project. In three of the countries, the Sensitisation Programme of WAMZ has been launched and the campaign has taken off.

#### **THE GAMBIA**

The first meeting of the Gambia's NSC, comprising five institutions was held on October 10 2001. The Committee is expected to expand its membership to include the private sector, civil society, NGO's, traders, radio/TV stations. The launching ceremony of the Sensitisation Programme took place on March 28, 2002.

The official launching of the National Sensitisation Programme and workshop organized by the Gambian Authorities took place at the Jaama Hall of the Kairaba Beach Hotel, Banjul, The Gambia on March 28 2002.

The ceremony presided over by Her Excellency, Mrs Isatou Njie-Saidy, Vice President and Secretary of State for Women's Affairs, was attended by over 200

guests including: the Chief Justice, Members of the National Assembly, the Governor of the Central Bank of The Gambia, Delegate of the European Union, top Government officials, members of the Diplomatic Corps, the Financial and Business Communities, the Press and representatives of the West African Monetary Institute.

The opening ceremony and the seminar was chaired by the Secretary of State for Finance, Honourable Famara Jatta. In his opening remarks, the Chairman welcomed guests to the ceremony and pledged the Government's commitment to the West African Monetary Zone project.

The official launching of the sensitisation programme was addressed by the following speakers: Mr. Siradiou Bah, Director of Operations WAMI, representing the Director General, the Governor, Central Bank of The Gambia, the representative for the Secretary of State, Department of Trade, Industry and Employment, and Her Excellency, the Vice President and Secretary of State for Women Affairs.

Mr Siradiou Bah highlighted WAMI's mandate towards the implementation of the common currency project, as well as the benefits that could be derived. He urged the National Sensitisation Committee members to be steadfast in the publicity campaign to enable them garner support and acceptance for the common currency by the general public.

He commended the personal involvement of the President of the Republic of The Gambia, the adherence and effective participation of the Governor of the Central Bank at the various stages of the project since its inception in 2000.

The Governor, Mr M. C. Bajo in his statement noted that monetary integration enhances other economic integration initiatives that could lead to, among others; expanded trade flows and increased economic growth and welfare. He gave a catalogue of the convergence criteria to be fulfilled by member countries of the Zone. He

acknowledged the difficult path to be faced in achieving the objectives, but recognised that with commitment and political will, the project will be successful.

The statement by the Honourable Secretary of State for Trade, Industry and Employment, was delivered by Mr Bai Jobe who noted that the launching of the sensitisation programme was taking place at a time when the process of regional, economic, monetary and financial integration was gaining momentum in various regions of the world. He urged the members of the National Sensitisation Committee to work with the general public in order to create the necessary awareness.

Her Excellency, Mrs Isatou Njie-Saidy, Vice President and Secretary of State for Women Affairs delivered the keynote address. She cited various regional groupings all over the world that are coming together in order to plan and advance the course of policy coordination to ensure stability, advance welfare gains and economic development. She urged members of the NSC to reach out to all the stakeholders of the WAMZ project. She concluded her speech by formally launching the WAMZ project and the National Sensitisation Programme in The Gambia.

### **Workshop at the Launching Ceremony**

After the formal opening ceremony, a Workshop was held at which two papers were presented. The highlights are as follows:

The first paper entitled "Monetary Union – The European Experience" was presented by Mr Mark André, the European Commission Chargé d'Affaires in The Gambia. He reaffirmed the European Commission's will to support regional integration as an evident tool, not only for equitable growth, but also, for conflict prevention, democracy and good governance. He urged the West African Monetary Zone to look beyond the European experience and draw lessons from: The West African Economic and Monetary Union (WAEMU); Central African Economic and

Monetary Commission (CAEMC), Eastern Caribbean Union (ECCU); the Common Monetary Area (CMA) in South Africa. He noted that lessons should also be drawn from failed currency unions.

Mr André recalled the history of the Euro area, the formation of the European Monetary System and the Delors Report, which gave fresh impetus to the regional integration process in Europe, leading to the signing of the Maastricht Treaty. He highlighted other policies and institutions supporting regional integration in the European Union which include: Common market, European Court of Justice, European Coal and Steel Community, the Single European Act, Common Agricultural Policy and harmonization of regulations in a number of areas.

According to him, a huge public relation exercise was undertaken to sensitise the public on the Euro, which enabled the stakeholders to accept the currency. He informed participants that the old national currencies remained usable for a period of up to 2 months after the introduction of the Euro, but by mid January, two weeks after the notes and coins were introduced, more than 80% of cash operations were made in Euros. The Euro Zone could boast of a successful campaign and wide acceptance of the currency, after 22 years of preparatory work.

The second paper entitled "The Road To A Common Currency In West Africa: Prospects and Challenges" was presented by Mrs E. Iscandari, Chief of Operations, WAMI. The paper recalled the evolution of West African integration, noting that the two zones in West Africa fall under the umbrella of ECOWAS, which is attempting to create a single monetary zone from the Sub-region. The slow pace of the ECOWAS Monetary Cooperation Programme was attributed to, among others, inadequate political commitment by member countries to implement all the aspects of the programme, as well as the existence of parallel monetary arrangements in the sub-region. Mrs

Islandari highlighted WAMI's work programme, citing the focus of the programme for this current year.

With regard to prospects and challenges, reference was made to the renewed political commitment of member countries, which saw the application of the fast track approach in the form of the second monetary zone arrangement. At the continental level, new initiatives include the New Partnership For Africa Development (NEPAD), the transformation of the OAU into African Union (AU). Against this background, the outlook for the next three years should be encouraging.

There was a call for member states of the WAMZ to resolve to strengthen their economic recovery effort during the convergence period. Furthermore, the establishment of the WAMZ should be applied to its logical conclusion by member countries.

At the sub-regional level, a redefinition of the goals and strategies of the integration process should be undertaken with greater transparency,

### **Discussion Session and Closing Ceremony**

A discussion session concluded deliberations at the launching. Concerns were raised, on the necessity of organising a referendum to elicit public reaction to the common currency project; the idea of pegging the common currency to the Euro instead of the dollar; the long preparatory period for the Euro currency vis-a-vis WAMZ programme; the need for West African integration process to go beyond money matters, to include trade issues; the need to develop infrastructure, particularly communications; the need to get a name for the common currency without further delay; etc.

Responses were given to the concerns raised and the Chairman, in his closing remarks urged everyone present to be a messenger of the project.

### **GHANA**

The NSC of Ghana comprising 20 members, was inaugurated on September 11, 2001. Ghana had slated November 2001 for the formal launching but the event was postponed. No new date has been fixed for the official launching.

### **GUINEA**

Guinea's NSC is composed of 12 members and the Committee was inaugurated on 7<sup>th</sup> August 2001. A date has not been set for the official launching of the sensitisation programme. However, the NSC organized on February 10<sup>th</sup> 2002 a seminar on the second monetary zone during an International Trade Fair, which took place in Conakry from January 31 to February 11, 2002.

### **NIGERIA**

The formal launching of the National Sensitisation Programme as well as the inauguration of the members of the National Sensitisation Committee was performed by His Excellency, Chief Olusegun Obasanjo, President and Commander-in Chief of the Armed Forces of the Federal Republic of Nigeria on March 15, 2002 at the State House in Abuja. The ceremony was attended by a number of dignitaries including the Honourable Minister of Cooperation and Integration in Africa; The Executive Secretary of ECOWAS; the Director General of WAMI; and members of the National Sensitisation Committee (NSC).

In his welcome statement, the Honourable Minister of Cooperation and Integration in Africa recalled the decision to establish the second monetary zone by the year 2003 and the impressive progress that had been made since the establishment of WAMI. He spelt out the terms of reference of the NSC and its membership (42) drawn from relevant ministries, agencies of Government, the National Assembly, among others. President Olusegun Obasanjo, in his launching address, emphasized the important role the NSC has to play in enlightening the populace so as to mobilize support for the programme. He urged the Committee to carry out its

assignment with zeal and vigour and pledged the Government's support for the programme.

### **SIERRA LEONE**

The formal launching ceremony of the sensitisation programme of the West African Monetary Zone (WAMZ) project, was performed by His Excellency the President of Sierra Leone, Alhaji Dr. Ahmad Tejan Kabbah on Tuesday, 19 February 2002 at the Bank of Sierra Leone complex, Kingtom, Freetown. The ceremony was attended by dignitaries such as, the Vice-President; The Speaker of the House; Cabinet Ministers; Members of the Diplomatic Corps; the Business and Banking Communities including the Press. The West African Monetary Institute was also present with a delegation of three officials.

The purpose of the ceremony was to formally launch the Sensitisation Programme and to introduce the National Sensitisation Committee (18 members) charged with the implementation of the various activities of the programme. It was also aimed at publicising the common currency project to all the stakeholders in order to garner support and commitment.

At the ceremony, four statements were presented by: the President, His Excellency, Alhaji Dr. Amhad Tejan Kabbah, Mr. David Carew, the Chairman of the Ceremony, the Director of Operations, WAMI, representing the Director-General, the Minister of Trade and Industry, representing the Minister of Foreign Affairs, who is the Chairman of the National Coordinating Committee. The vote of thanks was moved by Mr. J Sanpha Koroma, Governor, Bank of Sierra Leone.

As a form of advertisement, a script on the West African Common Currency was played in videotape. The messages portrayed in the skit included: the advantages to be derived by the common currency, particularly for facilitation of cross-border transactions by traders, and the need to spread the message to the general public.

### **EUROPEAN COMMISSION HOLDS SEMINAR ON EUROPEAN UNION IN ACCRA**

The Seminar was organised by the Delegation of the European Commission to Ghana, at the M Plaza Hotel, Accra Ghana on March 14, 2002. The aim of the Seminar, which drew participants from the Central Banks of the West African Monetary Zone (WAMZ), the West African Monetary Institute (WAMI), the academia, the private sector and the mass media, was intended to provide a forum for the exchange of ideas between the European Union (EU) and the two monetary zones in West Africa, in order to bring into clear perspectives what is required to actualise the benefits envisaged from monetary integration in ECOWAS. Facilitators were drawn from the European Commission, the European Central Bank, the West African Monetary Institute, UEMOA Commission, the Embassy of the Republic of France and the Private Sector. The Head of the European Delegation, His Excellency H. E. Stefan Frowen welcomed participants to the Seminar. He noted that the circulation of the Euro on February 28, 2002 was the most remarkable achievement in Europe in the last 50 years, but it came with the loss of sovereignty over monetary policy. Since West Africa was engaged in the process of monetary integration, the Delegation felt that the experience of Europe would be useful for the design of appropriate options for the sub-region.

The purpose of this brief is to highlight the issues raised at the Seminar that are of importance to the status of the Second Monetary Zone Project in the context of the "super fast track approach" to integration in ECOWAS. The rest of the brief is in five parts. Remarks by the Honourable Ministers of the Government of Ghana at the opening ceremony are in Part II while Part III contains highlights of deliberations. Conclusions are presented in Part IV while implications are in Part V. The brief is concluded with recommendations in Part VI.

## II. Remarks by the Honourable Ministers of The Government Of Ghana

The Honourable Minister of Finance of the Republic of Ghana, Mr. Osafo Maafo made some remarks at the opening ceremony of the Seminar. He noted that the Euro was circulated in the member countries of the European Union (EU) about the same time that ECOWAS embarked on a “fast track approach” to integration in the sub-region, to ensure a one step movement to monetary union, instead of the previous two-stage approach. The Minister elaborated that the idea is not to reinvent the wheel but to fine tune and hasten the process towards ECOWAS integration. He acknowledged EU’s support to Ghana on a study on the impact of the UEMOA on Ghana, which he said catalysed the implementation of the fast track approach to ECOWAS integration. He observed that the Government of Ghana and other ECOWAS countries are working strenuously to satisfy the ECOWAS convergence criteria by 2004.

The speech by the Honourable Minister of Economic Planning and Regional Cooperation, Dr. P Kwesi Nduom, was read on his behalf by the Chief Director of his Ministry. He could not attend the opening ceremony as he was attending to other engagements at the Parliament. The Minister informed the Seminar that the aim of the Government is to make Ghana the gateway to Africa for both domestic and foreign investors. Ghana should be able to target the 280 million people in the whole of ECOWAS, beyond the 18 million people in Ghana. This can only happen with an efficient and effective ECOWAS.

The Minister further remarked that “Ghana is surrounded by French speaking countries, all of which are part of UEMOA. People often compare ECOWAS and UEMOA and notice that the latter has gone much further and has been much more successful in achieving regional cooperation than the former. Why is UEMOA so much more successful? There can be many reasons for it. First, ECOWAS

countries are more in number and show much more economic, social and political diversity than the UEMOA countries. ECOWAS numbers 15 and includes an economic giant like Nigeria next to the tiny state of Gambia and therefore it is much more ‘integration among unequals’, something which is arguably hard to achieve. Second, the UEMOA-countries have had common currency for over 50 years with a central bank that has shown it is capable. This has set a common reference point and a framework for further cooperation, which has indeed led to a range of achievements in terms of economic integration. Third, obviously the common colonial history and the role of France has played a role in the success of UEMOA. Fourth and last (but not least), I think it is also related to political commitments. Countries and their leaders must be prepared to hand over part of their sovereignty to a supranational organisation in order to get the benefits from regional integration. It appears this commitment has been more pronounced in the UEMOA group than in the more diverse ECOWAS region.” He concluded that the hitherto elusive political will has been in place in the last few years and that ECOWAS leaders have now realised that cooperation will pay off.

## III. Highlight of Deliberations

The main lessons that could be learnt by ECOWAS from the presentations on the European experience are the need to sustain political commitment in the integration process, especially the willingness of member countries to give up sovereignty over certain policy matters, like monetary policy, the need to attain stipulated convergence criteria and continuously adhere to them, the need to apply peer pressure to keep member countries in check, the need for a stability and growth pact to ensure even economic development and sustainable fiscal deficits that would ensure macroeconomic stability which creates an enabling environment for economic growth. Furthermore, appropriate sanctions could be applied to check abuses by member

countries in the application of fiscal policy instruments.

The Director General's paper on "ECOWAS Monetary Zone Two: Evolution, Current Status and Outlook" was presented on his behalf by Mr. Siradiou Bah, Director of Operations, WAMI. The Director General traced the genesis of the West African Monetary Zone, presented WAMI's programme of operations including achievements made and outlook for ECOWAS monetary integration.

After the various presentations, which were on the modalities/preparatory activities for the introduction of the Euro and the working of the European Monetary Union (EMU), two panel discussions were held, one in the morning session and the other in the afternoon session. The first was on the consequences of the changeover to the euro for the private sector in Ghana. The second panel discussion was more robust as it generated critical appraisal of the integration process in Europe and the ECOWAS, especially the relationship of UEMOA and ECOWAS programmes. The panel discussion was on the theme "Future Plans for the ECOWAS Monetary Zones". Dr H.A.K. Wampah of WAMI, Mr. Laurent Ogowa Afossa, of the UEMOA and a representative of the French Embassy were the panellists.

Before the panel discussion, the Honourable Minister of Economic Planning and Regional Cooperation, Dr. P Kwesi Nduom came in from Parliament. He apologised for not being able to come for the opening ceremony owing to other engagements in the Parliament. He said he wanted to make clarifications on the role of WAMI and the Second Monetary Zone in the ECOWAS fast track approach to monetary integration in 2004 as he had been accosted on the issue on several occasions. He explained that the Authority of Heads of State and Government of ECOWAS in Dakar, Senegal in December 2001 decided that experts from the UEMOA/CFA franc Zone and WAMZ meet to agree on the name of ECOWAS Single Currency. As a result, there has been a

change of strategy from a two-stage currency model to a single stage model, which entails concentration on the ECOWAS Monetary Cooperation Programme (EMCP). The Minister emphasised that we are not reinventing the wheel but oiling the spokes to accelerate the process of integration.

The second monetary zone and WAMI according to him are still relevant since the non-UEMOA ECOWAS needs an institutional framework to help in technical and operational preparations to put these economies on comparable status with the UEMOA in the run up to ECOWAS single currency in 2004 or whenever feasible. WAMI would, therefore, remain the focal point for the integration efforts of WAMZ countries in the context of ECOWAS Integration Programme.

The representative of the UEMOA presented macroeconomic analysis of developments in the UEMOA in 2000 and 2001 and the convergence programme for 2002. He did not provide information on any relationship with ECOWAS Programme. When asked about the missing link, he said that the UEMOA was operating the programme as directed by its Authorities and that the issues of a link with ECOWAS Programme and the 2004 target date for a single currency are outside the mandate of UEMOA. Higher authorities may take a decision on such issues. On the issue of UEMOA and WAMZ experts working on a common currency for ECOWAS and the arrangement for the UEMOA to adopt ECOWAS single currency in 2004, the UEMOA's representative retorted that the question should have been put the other way; "Are the non-UEMOA countries ready to join the UEMOA, a zone that has been operating successfully for a long time, and adopt its currency, the CFA."

Reacting, Prof. S.B.K. Asante, emeritus Professor of Economics and renowned scholar on economic integration, noted that the UEMOA has not done as wonderfully well as we are being made to believe. Even with their common currency and language, they have not done so well. With the low average

GDP of the UEMOA and so little trade among the member countries, can they stand alone and face the challenges of globalisation, he queried. Prof. Asante summed up that the UEMOA was being teleguided by France and that the Union was not ready for an ECOWAS Programme.

#### IV. Conclusions

The UEMOA would not dissolve its monetary union and common central bank for an ECOWAS arrangement. The UEMOA would prefer that its institutional arrangements be acceded to by the non-UEMOA ECOWAS. Since the EU may not be willing to accept such an expansion on the original terms with the UEMOA, the common currency could be linked to the Euro in the case of the UEMOA while the joining members could have the same currency but it may not be directly linked to the Euro. It may be possible for the small economies to be taken on fully while others like Nigeria could be locked into an exchange rate arrangement.

It is not likely that most WAMZ countries, would accept such arrangements. It is curious to note that Guinea, a francophone country is not attracted by the UEMOA. The same can be said of The Gambia that is encircled by Senegal, a Francophone country.

#### V. Recommendations

i) The WAMZ should continue with its programme within the framework of achieving a single monetary zone and currency for ECOWAS in 2004. The WAMZ should develop the desired competitive advantage through faithful implementation of policy measures to achieve the stipulated convergence criteria.

ii) If the search for a common currency for the whole of ECOWAS drags on, the process should be abandoned. The WAMZ should thereafter concentrate fully on the pursuit of its own programme. The UEMOA is most likely to propose the name of its own currency. Such a name could be accepted if

it is not controversial and it is not an existing name for a currency in the sub-region. Once a name is selected, the WAMZ should adopt the name and commence its use as a virtual currency.

iii) The UEMOA may continue to drag the process of a merger. It may insist on the WAMZ joining the UEMOA through some arrangements, since it has an existing Central Bank and a common currency. In order not to stall progress at that point, the two zones could operate their monetary unions with a conversion rate between their currencies. Negotiations would then progress on how to merge the two currencies. This should be a fall back position if the one-stage movement towards a common currency for ECOWAS does not produce the desired results.

### LEGAL AND INSTITUTIONAL ISSUES EXPERT COMMITTEE MEETS IN ACCRA

The 3<sup>rd</sup> Meeting of the Legal and Institutional Issues Committee of the West African Monetary Institute (WAMI) was held in the Conference Room of the Institute in Accra, Ghana from March, 18 – 19, 2002. The meeting was called to deliberate on the Draft Uniform Central Bank Act for member states of the WAMZ prepared by the Institute in accordance with the decision of the Convergence Council during its meeting in Dakar, Senegal on December 21, 2001.

#### Attendance

Representatives from the following institutions participated at the meeting:

##### The Gambia

- Central Bank of The Gambia.

##### Ghana

- Attorney Generals Dept,  
Ministry of Justice
- Bank of Ghana.

**Guinea**

- Central Bank of the Republic of Guinea

**Nigeria**

- Ministry of Cooperation and Integration in Africa.
- Central Bank of Nigeria.

**Sierra Leone**

- Ministry of Justice.
- Bank of Sierra Leone.

**West African Monetary Institute (WAMI)****Opening Ceremony**

Dr. M. O. Ojo, Director General of the West African Monetary Institute welcomed members of the Committee to the meeting. He thanked the Committee for the excellent work it did last year, the outcomes of which were considered by the Convergence Council during its meeting in Dakar, Senegal in December 2001. He also congratulated the Committee as being the most active so far of all the Committees set up in the WAMZ. The Director General recalled that the Institute had in an earlier document identified the differences in the Acts of the National Central Banks and the Statutes of the WACB with a view to harmonizing them. The document called for considerable amendments to be made in the various Acts of the National Central Banks. The document was thereafter presented to the Convergence Council for adoption.

5. At the December meeting in Dakar the Convergence Council considered the document and expressed the view that rather than amend the Acts of the various Central Banks it would be better if a draft Uniform Act could be prepared for adoption by all member states. Furthermore, the status of National Central Banks should be reflected as branches in their relationship with the WACB in the Uniform Act. It would now appear that there was a new thinking on the part of the Council and the Committee was therefore expected to deliberate on this new approach, proffer advice and chart a desired direction for the WAMZ.

6. Giving an overview of the draft Uniform Central Bank Act to be considered by the Committee, the Director General noted that the task before the meeting was to fine-tune this document and also make recommendations on other important issues relating thereto, such as amendment to the Statutes of the WACB where necessary. He therefore urged the Committee to consider and deliberate dispassionately on the issues and wished the members fruitful deliberations.

**IV. Election of Bureau**

7. The Bureau was constituted as follows:
- Central Bank of The Gambia - **Chairman**
  - WAMI - **Rapporteur**

**V. Consideration of Agenda Items**

The main item on the Agenda was Consideration of the draft Uniform Central Bank Act for member states of the WAMZ.

**Background**

Mr. Hussein Thomasi, Head of the Legal Unit of WAMI gave a background to the document. He recalled that the Committee at its last meeting considered the harmonization of Acts of NCBs with the Statutes of the WACB. He informed the Committee that at its meeting in Dakar in December 2001, the Convergence Council considered the Institute's proposals and expressed preference for the option of preparing a Uniform Central Bank Act which should be applicable in all member states of the WAMZ. The Council as the supervisory authority of the WAMZ also directed that it should be reflected in the uniform Act that the NCBs shall be branches of the WACB.

Mr. Thomasi noted that the provisions of the draft Uniform Act were essentially drawn from the various Acts of the National Central Banks, the WAMZ Agreement and WACB

Statutes, and best practices in other similar institutions. He further pointed out that the Uniform Act incorporated those provisions which relate to:

- the objective of the WACB;
- independence of the NCBs;
- issuance of currency notes and coin;
- provisions recognizing the authority of the WACB to manage foreign exchange reserves of the member countries of WAMZ; and
- Monetary policy

He finally noted that issues which the expert Committee had earlier on agreed upon were adapted and incorporated in the Uniform Central Bank Act.

## **VI. Outcome of Deliberation**

### **a. General Discussions**

The Committee observed that the decision to prepare a Uniform Central Bank Act for member states of the WAMZ was in line with Article 15 of the WACB Statutes which required that member states should ensure that the statutes of their national central banks and other national legislations are compatible with the WAMZ Agreement and the WACB Statutes.

It was further observed that the functions of the National Central Banks outlined in Article 16 of the WACB Statutes were branch functions even though this was not expressly stated in the WACB Statutes. It must however be noted that the WACB Statutes gave recognition to the existence of National Central Banks. It would therefore appear that National Central Banks are to have a dual character in the sense that operationally, they are to act as branches of the WACB, while retaining their autonomy in matters of internal administration and management.

The Committee noted therefore that in carrying out the directives of the Convergence Council, it would be necessary

first of all, to amend the Statutes of the WACB to reflect the exact nature of the relationship between the NCBs and the WACB. This should also be expressly stated in the draft Uniform Central Bank Act. The Committee therefore proposed the following amendment to Article 16 of the WACB Statutes:

“The National Central Banks shall be branches of the WACB and shall perform the following functions in their territories:

- i. manage, distribute and withdraw currency;
- ii. implement the monetary policy of the WACB;
- iii. manage the payments and settlements system;
- iv. serve as bankers to financial institutions in the zone and fiscal agents of governments;
- v. exercise prudential supervi over financial institutions
- vi. conduct foreign exchange operations under the guidance of the WACB.”

The Committee deliberated extensively on the legal implications of the National Central Banks becoming branches of the WACB. It was observed that a branch is legally supposed to be an extension of its parent institution performing common services and functions. It would appear that under the Statutes, the National Central Banks are envisaged as maintaining their legal entities and are recognized as such under the Statutes. It was however observed that in terms of performing their WACB functions, they would essentially be performing functions similar to that of a branch institution. The Committee did not envisage the situation where all internal administrative and management matters of the NCBs would be transferred to the WACB. The Committee did not find any legal basis for departing from this proposition.

The Committee in its deliberations therefore concluded that it would be feasible to characterize the NCBs as branches in the Uniform Act only for purposes of carrying out their functions under the WACB Statutes.

The Committee also noted that with regard to the preparation of the uniform Act for member Central Banks, there were structural differences in individual countries which would make it difficult to ensure uniformity in administration and management. These differences relate to areas such as:

- the composition of the Board staff appointment and remuneration;
- promotion;
- discipline and disengagement; and
- pension payments etc.

The Committee observed that there were also significant differences in the legal and constitutional arrangements of member countries, which would make it difficult to accommodate absolute uniformity in the Act. For example the different practices in the adoption of International Treaties by member countries were highlighted. It was pointed out that while in some countries like Guinea, a Treaty could form part of municipal law as a result of ratification, in other countries, the Treaty apart from being ratified would also have to be enacted as part of the national law and thus align with existing constitutional and legal arrangements.

The Committee deliberated extensively on the issue and came to the conclusion that the draft Uniform Central Bank Act should serve as a model law, which Member States should as far as practicable adapt. This approach is similar to what prevails in the United Nations system. Examples are model laws prepared by the United Nations Commission on International Trade Law (UNCITRAL), which all members states are expected to adapt.

## **VI. Recommendations**

The Committee however recommended that provisions which have bearing on the relationship between the NCBs and the WACB should be uniform and mandatory. These provisions are those relating to:

- objectives of the WACB;

- independence of the National Central Banks and provisions relating to security of tenure of Governors, Deputy Governors and Directors;
- prohibition of the public sector from receiving monetary financing;
- issuing of currencies and coins;
- maintenance and management of foreign reserve assets;
- monetary policy;
- exchange rate policy;
- qualifications for appointment of Governors, Deputy Governors and Directors;
- Governor as Chairman of the Board of Directors of the NCB; and
- the express provision in the Uniform Act to the effect that should there be any inconsistency between the provisions of the Uniform Central Bank Act and WACB Statutes, the provisions of the WACB Statutes shall prevail.

However, it was recognized that the other provisions relating to administration and management should as much as possible be harmonized. However as these may differ from country to country, member states should have the discretion to legislate appropriately on them.

### **VI.I Specific Recommendations**

The Committee deliberated on each provision of the Uniform Central Bank Act and made the following amendments to the original draft presented by WAMI:

#### **i. Part II: Establishment, Objective and Functions**

- Each country should adapt the provision of section 3 to suit its own form of legal drafting
- Section 4.2 should be redrafted to reflect that the National Central Banks shall be branches of the WACB in carrying out their functions under Article 16 of the WACB Statutes. This would be consistent with the

amendment proposed for Article 16 of the WACB Statutes.

- Sections 6 and 7 relating to the custody of the Seal and authorization for its affixation should be merged. The Board of each Bank should determine the arrangement for custody and application of the Seal. For Guinea, in compliance with the Statutes of the WACB, the Central Bank should have its own Seal as distinct from that of the Republic.
- The French translation of Article 8 and 11 should be re-examined for clarity.
- Section 9 relating to the objective of the Bank should be redrafted to conform with the provisions of the WACB Statutes.
- Section 10 relating to specification of the elements of price stability should be deleted, as these would be covered in the guidelines on monetary policy implementation that would be issued by the WACB to National Central Banks.

## ii. **Part III**

- Section 15(2) should be deleted and provision made for the capital to be fully paid. In addition there should be a provision for the capital to be increased from time to time by the Board as necessary.
- Section 16 (1- 4) relating to the provision for General Reserve Fund should be re-examined and redrafted to give general guidance to member countries.
- Section 17 of the French version should be redrafted to reflect what is contained in the WACB Statutes

## iii **Part IV: Administration**

- The composition of the Board of Directors provided for in Section 19.2 should be left to the discretion of individual countries. However, in all cases, provision should be made for the Governor to be the Chairman of the Board and a Deputy Governor as a member of the Board. The Deputy Governor should be nominated Chairman in the absence of the Governor. Also the composition of the Board should include Executive Directors, one of which should be a representative of the Ministry of Finance.
- The reference to the "President" in Section 23 (3b) should be deleted to give the Board the authority to determine fees.
- Section 24 should be redrafted to indicate clearly that persons appointed Governor, Deputy Governor or Director of the Bank should not hold any other office or continue to remain in such offices.
- The quorum for meetings of the Board provided for in Section 26 (3) would be determined in line with each country's requirement
- The translation in the French version of Section 28 should be reviewed.

## **Part V: Currency**

- Section 33 sub sections 3, 4, and 5 should be corrected appropriately.
- Reference to "Stamp Duty Act" in sub section 6 should be removed, as member states would have to insert their appropriate stamp duty legislation.

## Part VI: Operations

- Section 37, sub section 2 relating to supply of confidential information should be re-examined for clarity, while the sentence in sub section 3 (c) relating to offences for the supply of false information should be deleted as the import of the sentence is already captured in 3 (a) and (b).
- Sub Section 4 (a) and (b) of section 37 relating to the level of penalty on supply of false information should be deleted. The subsection should be redrafted to indicate that member countries will decide on the level of penalties to be imposed for offences.

## Part VII: Relationship with WACB

- The title "Relations with WACB" in Part VII should be changed to "Monetary Policy" as the substantive part of the section relates to monetary policy, while the whole document actually deals with relationship with the WACB. The other subsections should be transferred to appropriate places in the Act.
- A new part on Reporting Obligations should be introduced in the document.

## Part VIII: Miscellaneous Provisions

- The following should be added to the Miscellaneous provisions: "Where there is any inconsistency between this Act and the WACB Statutes, the provisions of the WACB Statutes shall prevail".

Subject to the above amendments, the Legal and Institutional Issues Committee adopted the draft Uniform Act for member Central Banks of the WAMZ for the consideration of the Technical Committee.

## VII. Closing Ceremony

Mr. J. O. Akinkunmi, Senior Legal Officer, Central Bank of Nigeria moved the vote of thanks. He commended WAMI officials for their dexterity in handling the meeting. He also expressed appreciation to the Management of the Institute for the warm reception and hospitality accorded the delegates since their arrival in Accra.

The Chairperson, Mrs. Janet R Sallah-Njie, congratulated WAMI for the excellent work. She also thanked delegates for the quality of contributions that facilitated deliberations at the meeting and she wished them safe journey to their various destinations.

### WAMZ MEETINGS HELD IN FREETOWN

The meetings of the Institutions of WAMZ were held in Freetown, Sierra Leone between April 7 and 13, 2002. The Study Reports prepared by WAMI were considered by the Technical Committee that made recommendations to the Committee of Governors. On its part the Committee of Governors considered the recommendations of the Technical Committee and made recommendations to the Convergence Council. The Council deliberated on the issues brought before it and adopted some of the proposals for consideration of the Authority of Heads of State and Government of the WAMZ.

### Presentation by WAMI

The summaries of the Study Reports presented by WAMI are as follows:

#### A. Policy Issues

### Macroeconomic developments and Convergence Report for 2001

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 need to strengthen their efforts towards achieving the terminal criteria. The report recommends 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. As in the past, the approved report would be forwarded by WAMI to the member countries for relevant actions.

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

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 participants. 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. WAMI will present periodical

reports on the working of the ERM for the information of the Technical Committee and the Convergence Council.

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

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 into 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 is set at par with the US dollar. Thus, the values of national currencies at the end of March 2002 would become the central 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. The paper is for information.

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

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 external reserve management in the zone for the conduct of monetary policy. 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.

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

Highlights of the document, Ref:WAMI-IMAO/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 any arrangement 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 UEMOA Banking Commission to be chaired by the President of the WACB that will undertake and implement banking and financial regulation. An explicit deposit insurance scheme is also recommended for the zone.

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

WAMI outlined the highlights of the Report, Ref:WAMI-IMAO/ODG/CC.7/07, the aim of which is to find out how far the countries of WAMZ have adopted the IMF GDSD 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. WAMI will continue to monitor the process.

## **B. Operational Issues**

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

WAMI presented the highlights of the document, Ref:WAMI-IMAO/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\$25 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.

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

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 are yet to launch the programme officially. The report urges member countries to redouble their efforts in implementing the programmes.

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

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.

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

WAMI outlined the essential points of the document, Ref: WAMI-MAO/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 background to the

paper gives the rationale for starting the WAMZ project and the process of identifying the name of its common currency. It also highlights the mandate of WAMI aimed at preparing the WAMZ countries to be at the level of the UEMOA. The paper proposes that the name, ECO, which has been adopted by the Convergence Council of WAMZ should be put forward during the proposed meeting(s) of experts of WAMI and BCEAO. The BCEAO and other stakeholders should also make their own proposals. The proposals should be discussed and outcomes 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.

## **C. Legal Issues**

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

The essentials of the document, Ref:WAMI-IMAO/ODG/CC.7/11, earlier circulated were presented by WAMI. The document presents model 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. The NCBs would, under the earlier proposal, have had to amend their Acts to remove the differences, a process that was thought to be cumbersome. This model Central Bank Act could instead be adapted to each member country's legal framework appropriately. The functions of the NCBs vis-à-vis the WACB are spelt out, while critical features of a modern Central Bank such as primary objective, independence, prohibition of financing of government, currency issue, foreign

exchange reserve management and exchange rate policy are comprehensively treated for importation into national laws.

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.
- (ii) While the NCBs are envisaged as maintaining their legal entities as recognised by the Statutes, in terms of performing their WACB functions, they would essentially be performing functions of branch institutions;
- (iii) 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
- (iv) Provisions of the Uniform Central Bank Act, which have 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.

#### **D. Administrative Issues And Routine Reports**

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

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. 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. However, for cost effectiveness, the two stages may be combined, where necessary, into one without delaying the process. In the alternative, WAMI could be transformed into an interim Central Bank to perform the role earmarked for the WACB, while strengthening the function of surveillance over macroeconomic performance and convergence, as well as harmonisation of economic policies, database development and promotion of financial sector infrastructure. Under the two arrangements, a virtual currency model will be developed by WAMI.

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

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, indicating its unwillingness in hosting the Headquarters of the WACB. The Convergence Council is to consider Ghana's application and others that may have been received after March 15, 2002 and make relevant recommendations to the Authority of Heads of State and Government.

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

The highlights of the document Ref:WAMI-MAO/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. The Committee of Governors is proposed to 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. The Technical Committee should consider and approve these proposals.

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

WAMI presented a brief summary of the document, Ref.: WAMI-MAO/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 surplus of US\$377,026.00.

#### **Major Decisions of the Seventh Meeting of the Convergence Council of the Wamz, Held in Freetown, Sierra Leone on April 11, 2002**

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

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

1. On this issue, Council observed that unlike in the previous year, no country met all four convergence criteria 2001. Council agreed that:
  - (a) All countries should make efforts to ensure compliance as scheduled.
  - (b) Countries with support from WAMI should come up with country programmes to meet the criteria.
  - (c) The WAMZ should have a fall back or contingency plan, in case no country satisfied all the criteria by the deadline of December 2002.
  - (d) The criterion on central bank financing of fiscal deficits should be accurately defined in order to eliminate any ambiguity.
  - (e) The most critical criterion is government borrowing from the central bank. If the criterion is not observed, it then becomes difficult to meet some of the other criteria. Governments must make effort to satisfy the criterion on central bank financing of government deficits.

- (f) To avoid any appearance of misreporting, WAMI and member countries should cross check data supplied before undertaking the analysis on member countries' economies.
- (g) In order to ensure fair comparability of data, every member country should endeavour to improve its database and subscribe to the GDDS by September 30, 2002.

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

2. The Council noted that the WAMZ ERM commenced on April 1, 2002 and urged countries that have not adopted the ERM to do so without further delay and inform WAMI accordingly.

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

3. The Council decided that the brief on the ECO Unit of Account should be further developed and made available to Council for its consideration at its next meeting in June, 2002.

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

4. The Council noted the recommendation of the Committee that WAMI should undertake a study on all ramifications of external reserve management for consideration by Council at its next meeting in June 2002.

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

5. The Council agreed with the recommendation of the Governors to have an external supervisory body for banking supervision in the zone which should be called the West African Financial Supervisory Authority (WAFSA). Furthermore, a scheme of explicit Deposit Insurance Scheme should be adopted by the zone.

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

6. The Council adopted the recommendation of the Committee of Governors that member countries should subscribe to the GDDS not later than the end of September 2002.

## **B. OPERATIONAL ISSUES**

### **Progress Report on the Operationalisation of the Stabilization and Cooperation Fund (SCF)**

7. The Council agreed to convey to the authorities in their member countries the need to pay the first instalments of their contributions to the SCF before the next meeting of Council in June 2002.

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

8. The Council decided that member countries, namely, Ghana and Guinea, that have not launched their sensitisation programme should do so before the end of June 2002.

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

9. The Council adopted the recommendation of the Committee of Governors that member countries should forward to WAMI as soon as possible the names of two nominees to the Zonal Committee on the Payment System, in addition to setting up their National Committees before the next meeting of Council in June 2002.

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

10. On this issue, Council decided to re-affirm ECO as the name of the WAMZ common currency as agreed in Dakar in December 2001. It further appealed to the Authority of Heads of State and Government

to ensure speedy completion of the process of arriving at a name of the common currency of ECOWAS in order to enhance the zone's sensitisation programme.

### **C. LEGAL ISSUES**

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

11. Council considered the recommendation of the Committee of Governors that WAMI should make proposals on the amendment to the Statute of the WACB in respect of the status of the National Central Banks which are to become branches of the WACB. The Statute would become the governing law of the branches. In addition, national legislations of National Central Banks would be repealed upon ratification of the WACB Statute.

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

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

12. The Council accepted the view of the Committee of Governors that the WAMZ programme should be sustained.

#### **Expression of Interest in Hosting of the Headquarters of the West African Central Bank**

13. The Council noted the report by the Committee of Governors that three countries (Ghana, Nigeria and Guinea) had expressed interest in hosting the WACB. Council decided that:

- (i) Guinea, that had not backed up its interest with an application, should submit its application to the Current Chairman of Council before the end of April 2002.
- (ii) The applications should be analysed by WAMI and passed through the Technical Committee and the

Committee of Governors before presentation to the Convergence Council through its Chairperson.

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

14. On this subject, Council adopted the following recommendations:

- (i) WAMI should develop a comprehensive human resource policy paper by June 2002.
- (ii) The Heads of State and Government of WAMZ should appoint the President, Vice Presidents and the other members of the Board of Directors of the WACB in their Summit in December 2002 who will make necessary arrangements to recruit other staff in line with the policy paper.
- (iii) The principles of equitable geographical distribution and gender sensitivity should be applied in appointments into the WACB.

### **Annual Report and Statement of Accounts of WAMI for 2001**

15. The audited financial statement of WAMI was presented to the Convergence Council by the External Auditors, Messrs KPMG. The Auditors confirmed that proper books of accounts were kept by WAMI. The Council thereafter adopted the Audited Financial Statement of WAMI as presented by the External Auditors.

### **VII ANY OTHER BUSINESS**

16. The Council confirmed that the subscriptions to the capital of the WACB should be made by member states by the agreed date of October 31, 2002.

17. The Council directed that a delegation should be sent to Liberia and Cape Verde to encourage them to formalise their membership of the WAMZ. The delegation

should consist of the Chairman of Council, Chairman of Committee of Governors, Executive Secretary of ECOWAS and Director General of WAMI.

18. The Council decided that WAMI should prepare a plan of action for implementation schedule between now and the rest of the year. The plan should be sent to members for their information so as to enable them plan their schedule.

19. The Council appealed to the Executive Secretary of ECOWAS to ensure that a full day is allocated to the Summit of WAMZ at the future ECOWAS Annual Summit and such Summit should hold simultaneously with that of UEMOA.