

**MEETINGS OF THE WEST AFRICAN MONETARY ZONE
ABUJA, NIGERIA
DECEMBER 15 – 17, 2004**

WAMZ/TC/19

**19TH MEETING OF THE TECHNICAL COMMITTEE
OF THE WEST AFRICAN MONETARY ZONE**

FINAL REPORT

**ABUJA, NIGERIA
DECEMBER 16, 2004**

**REPORT OF THE 19TH MEETING OF THE TECHNICAL COMMITTEE
OF THE WEST AFRICAN MONETARY ZONE
HELD AT THE ECOWAS SECRETARIAT, ABUJA, NIGERIA
DECEMBER 15 - 16, 2004**

I. INTRODUCTION

1. The 19th meeting of the Technical Committee of the West African Monetary Zone (WAMZ) was held at the Conference Hall of the ECOWAS Secretariat, Abuja from December 15 – 16, 2004, to deliberate on the progress of the implementation of the WAMZ Programme and other administrative issues affecting the future of the programme. The technical documents prepared by the West African Monetary Institute (WAMI) in collaboration with some of the Zonal Committees of the WAMZ formed the basis for the deliberations. All the member states, as well as the ECOWAS Executive Secretariat, WAMI and some observers were represented at the meeting (See Annexes I and V II).

2. Alhaji Idris A. Kuta , Director of Cooperation and Development of Nigeria's Ministry of Cooperation and Integration in Africa welcomed delegates on behalf of the Government and people of the Federal Republic of Nigeria. Thereafter, he declared the meeting open. The opening session was also addressed by Mr. Mame Cor Sene, Deputy Executive Secretary of ECOWAS responsible for Policy Harmonisation, on behalf of the Executive Secretary of ECOWAS. The outgoing Chairperson of the Committee, Dr. (Mrs) Nagnouma Faro welcomed delegates to the meeting and thanked all the WAMZ organs for the support accorded her during her tenure. Following the Opening Session, Alhaji Idris A. Kuta of Nigeria was elected Chairman of the Technical Committee. On behalf of the Government and people of Nigeria, he thanked the Committee, for electing Nigeria to chair the meeting. Thereafter, the meeting's Agenda was adopted (Annex II).

II. CONSIDERATION OF THE AGENDA ITEMS

3. The presentations made on the various Agenda items, as well as the observations and recommendations of the Technical Committee are summarized below:

A. Highlights of Presentations, Observations and Recommendations on Policy Issues

1.0 Outcome of the 4th Finance Ministers' Forum.

1.1 Highlights of Presentations

4. The theme of the Fourth Finance Ministers' Forum was on Fiscal Sustainability in the West African Monetary Zone. Two papers prepared by WAMI and the European Union formed the basis of deliberation by the Ministers. The presentation on Fiscal Sustainability in the WAMZ by WAMI highlighted the relevant conceptual issues, examined WAMZ countries' recent fiscal profiles and the causes of their unsustainability, and made policy recommendations. The paper noted that the sources of fiscal unsustainability were linked to the volatile and narrow revenue bases as well as overdependence on external grants. The presentation on the European Union Experience with the Stability and Growth Pact (SGP) traced the European Union's fiscal framework as laid down in the Maastricht Treaty and the SGP, which aims at ensuring fiscal sustainability through compliance with the reference values of 3 per cent of GDP for budget deficit and 60 per cent of GDP for government debt. Regarding lessons for the WAMZ, the paper noted that consistent fiscal rules are necessary for economic stability and growth; however, country specific conditions need to be taken into account. It was also noted that credible fiscal rules are underpinned by sound policies and structural reforms.

1.2 Outcome of Deliberations of the Forum

5. At the end of its deliberations, the Forum made a number of recommendations, including:

i. Revenue Mobilization

- Member countries were urged to step up tax reforms by consolidating and rationalizing tax and tariff structures, and adopting broad-based consumption taxes such as VAT to increase revenue and reduce undue reliance on foreign aid.
- The Ministers agreed on the need to adopt a comprehensive and internally consistent tax policy framework to guide and inspire revenue mobilization efforts
- Tax exemptions should be minimal and properly targeted at growth enhancing sectors.
- Government services should as much as practicable be provided on full cost recovery basis. The idea of big government, including provision of subsidies should be minimized, while the private sector should be adequately motivated to provide the needed impetus to drive economic growth.

ii. Rationalization of Expenditure

- The Forum agreed that it was most essential to rationalize expenditure in line with sustainable and predictable revenue profile. Furthermore, the Ministers agreed that public expenditure should be prudently managed so that such expenditure can contribute to growth and poverty reduction.

- The domestic debt problem should be resolved so that current resources could be used for investment to generate growth. Also, efforts should continue to be made to secure debt relief from multilateral institutions.

iii. **Governance Issues**

- The Forum emphasized the need for transparency and accountability in government fiscal operations.
 - Government accounts should be audited regularly while ensuring that fiscal rules are enforced.
 - Current efforts at reducing corruption in the member countries should be sustained and intensified.
6. The Forum also noted the outstanding financial obligations to the WAMZ programme and urged member countries concerned to pay up their contributions before December 2004.

1.3 Observations and Recommendations by the Technical Committee

7. The Technical Committee observed that fiscal dominance was the bane of the WAMZ Convergence process. It noted that in the past Finance Ministers' Fora, not all the Ministers were present. It observed that attendance at the Forum by all the WAMZ Finance Ministers would ensure that the decisions of the Forum are implemented by member countries and thus reduce the tendency towards unsustainable fiscal operations. The Committee noted the recommendations of the Forum and urged that member countries should implement them in order to facilitate the convergence process in the WAMZ.

2.0 Report of Self Assisted WAMZ –Wide Assessment of the Basel Core Principles

2.1 Summary of the Presentation

8. The Report was a follow-up to the stock-take of the performance of WAMZ banking supervision undertaken in 2003 by WAMI with the support of FIRST Initiative. The report indicated that WAMZ countries had made substantial progress since the assessment of 2003. Overall, the countries complied with or largely complied with 22 principles out of the 30 BCPs. On the average, 3 BCPs were regarded as not applicable, while countries were considered as non-compliant or materially non-compliant with 5 BCPs. The Gambia fully complied with 15 BCPs and was largely compliant with 10 principles. Nigeria and Sierra Leone both fully met 10 and were largely compliant with 15 and 11 BCPs, respectively. Ghana and Guinea fully complied with 6 and 3 BCPs respectively. Also, Ghana largely complied with 15 BCPs, while Guinea largely met 14 BCPs.

9. The report noted that notwithstanding the progress achieved, further improvement can be expected after the completion of the on-going legal and regulatory reforms in the countries. The areas where additional strong efforts were needed in all or most of the countries to strengthen their compliance with the BCPs were:
 - Principle 12 on Market risk,
 - Principle 13 on Other risks,
 - Principle 15 on Anti-money laundering (only Nigeria complied);
 - Principle 20 on Consolidated supervision (where applicable); and
 - Principle 22 on Remedial measures.

10. While highlighting the actions that have been taken by countries, the report noted that the roadmap for attaining the BCPs in the WAMZ included:
 - implementation of capital charge for market risk;
 - disaggregation of risks,
 - adoption of risk based information system and group risk management for conglomerates; and
 - adoption of international accounting standards.

11. The Report advised that there should be one set of prudential standards for liquidity, capital adequacy and effective open positions for foreign currency, regulations and the procedure manuals for credit risk and common training programme. Further efforts should aim at issuance of directives on corporate governance, sensitization on Basel II and contingency planning for corrective actions.

12. The Committee of Bank Supervisors, Research Directors and Legal Officers of the WAMZ discussed the report and noted that it reflected the prevailing supervisory systems in member countries. The Committee then recommended that:
 - the Report should be revised in line with deliberations and published for reference and implementation; and
 - a timeframe should be presented on country and zone-wide basis for the implementation of the Action Plan.

2.2 Observations and Recommendations by the Technical Committee

13. The Technical Committee noted the report and observed that most countries in the WAMZ had made progress in complying with the BCPs. However, countries were urged to intensify efforts towards full compliance with the BCPs.

3.0 Progress Report on Trade, Investment and Tax Issues in the West African Monetary Zone

3.1 Summary of the Presentation

14. At the commencement of the WAMZ Programme, two zonal committees, namely, Monetary and Trade Issues were established. While the committee on monetary issues kept the momentum, that on trade issues was discontinued. At the 15th meeting of the Convergence Council of Ministers and Central Bank Governors of the West African Monetary Zone held in Conakry, Guinea on September 2, 2004, it was directed that Ministers of Trade of the WAMZ should report to the Council at its meetings on the progress being made in the implementation of ECOWAS protocols on free movement of goods and persons, and other related issues. In this regard, WAMI convened on November 4 – 5, 2004, the first meeting of zonal experts on trade, investment and tax issues to review the implementation of the relevant protocols and agree on strategies for sustaining activities on the trade component of the second monetary zone initiative.
15. A representative of the Department of Trade and Customs at the ECOWAS Secretariat presented two background papers on the Status of the implementation of the ECOWAS Trade Liberalization Scheme (ETLS) and Harmonization of Indirect Taxes. Status reports on the implementation

of the ETLS by WAMZ member countries were also presented. After lengthy discussions, the experts, among others, observed that the slow implementation of the Scheme since 1990 was attributed to a number of factors, including the following:

- asymmetry in its implementation and the prevalence of tariff and non-tariff barriers;
- partial implementation of the scheme by some WAMZ countries which limits the benefits accruing to countries that have fully liberalized in accordance with the provisions of the ETLS;
- failure by member countries to fully honour their obligations by making regular contributions to the compensation scheme, thus hindering its effective implementation;
- failure by members to apply the progressive removal of tariff and non-tariff barriers which should facilitate the free movement of goods and persons;
- inadequate knowledge of the scheme on the part of most economic operators and those implementing the scheme.

3.2 Recommendations of the Zonal Committee on Trade, Investment and Tax Issues in the West African Monetary Zone

16. Among others, the Committee recommended that:
- the organization of multilateral fora around Ministries of Trade and relevant institutions should be sustained and complemented with bilateral negotiations among member countries;
 - member states should be committed by promptly making contributions to the compensation scheme through prompt payment of the community levy to the ECOWAS Secretariat;
 - all existing non-tariff barriers including the numerous road blocks and multiple agency checks at the border posts should be removed and in particular goods originating in WAMZ countries should be exempted from import prohibitions;

- member countries should embark on effective sensitization of relevant officials at the borders such as customs, immigration, security agencies' officials etc. and economic operators on the provisions of the scheme;
 - member states should adopt a medium term strategy to develop production capacities to enable them benefit from the ETLs while the ECOWAS should accelerate its infrastructural programmes such as the transportation and energy projects.
17. On harmonization of indirect taxes, the Committee recommended that WAMI should compile a report on existing indirect taxes imposed by member states on goods and services for discussion at the next meeting of the Committee.

3.3 Observations and Recommendations by the Technical Committee

18. The Technical Committee noted that trade was central to monetary cooperation and that adequate political will had not been demonstrated to fully implement the Protocol on the ECOWAS Community Levy. It urged member countries to implement the ECOWAS Community Levy so as to facilitate the full operationalisation of the compensation scheme for loss of revenue.

B. Highlights of Presentation, Observations and Recommendations on Legal Issues

1.0 Summary of Presentation

19. The Director of Legal Department of WAMI reported that at the Convergence Council meeting held in Conakry in September 2004, a draft WAFSA Statute was presented. The Council observed that the draft Statute has implications on efforts being made by some countries to update their banking legislations. Accordingly, it directed that national Central Banks should further review the draft and forward their comments to WAMI, by the end of November 2004. WAMI reported that only Nigeria responded and therefore assumed that member states were satisfied with the draft. This assumption was confirmed by all member countries present at the meeting.

1.1 Observations and Recommendations by the Technical Committee

20. The Technical Committee endorsed the draft WAFSA Statute and recommended it to the Committee of Governors for consideration. The Committee also noted that the drafts of the Banking and Other Financial Institutions legislation had been completed by WAMI for presentation to the Legal and Institutional Issues Committee early in 2005.

C. Highlights on Presentation, Observations and Recommendations on Administrative Issues

1.0 Proposals on WAMI's Work Programme and Budget for 2005

1.1 Summary of the Presentation

21. The Report gave an overview of the performance of the 2004 Budget of WAMI and broad activities in WAMI's Work Programme for the first half of 2005 as well as the budgetary provisions for the execution of the Work Programme and accompanying activities. The major components of the Work Programme during the first half of 2005 include: multilateral surveillance; policy harmonization; policy frameworks/architecture of the monetary union; sensitization, and external relations. As the Work Programme during the first half of 2005 will be directed at assessment of the readiness for the monetary union, the multilateral surveillance exercise will be more comprehensive, involving all components of the quantitative and qualitative benchmarks, including the institutional framework for the monetary union. Following the surveillance mission, the Institute will update the study on the preparedness of the WAMZ member countries for monetary union in July 2005. For policy harmonization which is critical for preparing an enabling environment for the introduction of the common currency, the focus would be on on-going activities with respect to statistical harmonization and database development, payments system development and institutional framework for banking supervision. On sensitization, the Institute will among other activities continue to support the National Sensitization Committees, especially in providing sensitization materials and delivery of lectures on invitation. The external relations and partnership programme will aim at sustaining collaboration with regional and international institutions, especially the Institute's development partners. The Work Programme of the Institute for the first half of 2005 and the accompanying activities produced a total budget of

\$1,775,380.00. The cost of the Work Programme of WAMI is estimated at \$390,468.00, general administration (\$1,367,334.00) and contingency (\$17,578.00).

1.2 Observations by the Technical Committee

22. The Committee observed that the critical aspects of WAMI's work programme for the first half of 2005 were macroeconomic surveillance and the study on the state of preparedness of WAMZ member countries for monetary union by July 1, 2005. It is also necessary to maintain continuity and sustain collaboration with development partners.
23. Thereafter, the Committee examined the detailed breakdown of the budget proposals by WAMI for the first half of 2005. It effected some adjustments in respect of the major vote heads as follows:

- **Multilateral Surveillance**

The sum of \$35,394 earlier earmarked by WAMI for special mission was not recommended for approval by the Committee.

- **The Zonal Committee on Trade, Investment and Tax Issues**

The Committee observed that no allocation was made for the meeting of the Zonal Committee on Trade, Investment and Tax Issues in the budget estimate whereas a meeting of the Committee had been included in the list of meetings for 2005. Subsequently, an allocation of \$4,600 was recommended.

- **External Relations and Partnership Programme**

The Technical Committee agreed that only one statutory meeting should be held instead of the two proposed by WAMI for the first half of 2005. In addition, meetings with some institutions within the sub-region were not recommended for approval by the Committee. Also, the number of participants in some of the approved meetings was reduced.

- **The Administrative Budget**

The administrative budget was approved by the Committee except in respect of publications in which the Committee advised WAMI to print 2000 copies of the Revised WACB Statute against the 1000 copies proposed. This was intended to ensure wider distribution to all the stakeholders, particularly the parliamentarians.

- **Cost of Study on State of Preparedness for Monetary Union**

The Technical Committee advised that the components of Terms of Trade and Real Exchange Rate Shocks should be merged as they can be considered under the same framework since they are not mutually exclusive. As a result, the Committee approved two studies as follows:

- Terms of Trade and Real Exchange Rate Shocks in the WAMZ;
- and
- Fiscal and Debt Sustainability in the WAMZ.

24. The Technical Committee noted that the budget estimates proposed by WAMI were too low to attract experienced consultants from within and outside the sub-region to undertake the studies. Accordingly, the Committee approved a contingency vote of \$35,000.00 in order to ensure that the studies were adequately funded.

1.3 Recommendations by the Technical Committee

25. The Technical Committee recommended to the Committee of Governors for consideration, a budget of \$1,631,842.00 (One million, six hundred and thirty-one thousand eight hundred and forty-two dollars) for WAMI's activities during the first half of 2005, compared with WAMI's proposal of \$1,775,380.00 (One million, seven hundred and seventy-five thousand three hundred and eighty dollars).
26. The Committee also recommended for approval of the Governors the sum of \$118,133.00 (One hundred and eighteen thousand one hundred and thirty-three dollars) for the Study on the State of Preparedness for the Monetary Union.

III. ANY OTHER BUSINESS

27. The following issues were raised under this agenda item:

- **Schedule of WAMZ Meetings, January – June 2005**

The Committee noted the Schedule of WAMZ Meetings for 2005 as indicated in Annex III.

- **Outstanding Financial Obligations**

The Committee noted the outstanding contributions by member countries in respect of the capital of the WACB and contribution to the SCF as indicated in Annex IV. Member countries were urged to make efforts to pay their outstanding contributions.

- **Information on Indirect Tax Regimes in the WAMZ**

Member countries were reminded to forward information on indirect tax regimes to WAMI urgently for analysis and presentation to the next meeting of the Zonal Committee.

IV. ADOPTION OF THE REPORT

28. The Report was unanimously adopted.

V. DATE OF NEXT MEETING

29. The next meeting of the Technical Committee will take place at Banjul, The Gambia in 2005. The exact date will be communicated to members in due course.

VI. VOTE OF THANKS

30. Mr. Basiru Njai, Acting Director of Research of the Central Bank of The Gambia expressed appreciation to the Government and people of Nigeria for the warm hospitality accorded members since their arrival in Abuja, and for the excellent facilities placed at the disposal of the Committee. He expressed gratitude to ECOWAS for facilitating the meeting. He commended members for their useful contributions to the deliberations of the Committee and the Chairman for the able manner he handled the proceedings of the Committee. He also acknowledged the useful documents prepared by WAMI for the meeting and wished delegates safe return to their various destinations.

VII. CLOSING

31. The Chairman of the Committee, Alhaji Idris A. Kuta, in his closing remarks thanked delegates for their fruitful contributions which facilitated proceedings at the meeting. He also thanked the Director General of WAMI and his staff for the quality of reports prepared for the meeting and wished delegates safe journey back to their respective destinations.

**DONE IN ABUJA, NIGERIA
ON THE 16TH DAY OF DECEMBER, 2004**

.....
**ALHAJI IDRIS A. KUTA
DIRECTOR, COOPERATION AND DEVELOPMENT,
NIGERIA'S MINISTRY OF COOPERATION AND
INTEGRATION IN AFRICA AND CHAIRMAN, TECHNICAL COMMITTEE
OF THE WEST AFRICAN MONETARY ZONE (WAMZ)**

ANNEX I

ATTENDANCE: MEMBER STATES AND INSTITUTIONS

THE GAMBIA

Department of State for Finance and Economic Affairs

Central Bank of The Gambia

GHANA

Ministry of Finance and Economic Planning

Ministry of Trade, Industry and PSI

Ministry of Regional Cooperation and NEPAD

Bank of Ghana

REPUBLIC OF GUINEA

Ministry of Finance and Economy

Ministry of Cooperation

Central Bank of the Republic of Guinea

NIGERIA

Ministry of Cooperation and Integration in Africa

Federal Ministry of Finance

Federal Ministry of Commerce

Ministry of Foreign Affairs

Central Bank of Nigeria

SIERRA LEONE

Bank of Sierra Leone

WEST AFRICAN MONETARY INSTITUTE

ECOWAS EXECUTIVE SECRETARIAT

OBSERVERS

- West African Institute for Financial and Economic Management (WAIFEM)
- Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)
- UEMOA Commission
- African Development Bank (ADB)

ANNEXE II

ADOPTED AGENDA

1. Opening
2. Election of Chairman
3. Adoption of the Agenda
4. Consideration of various reports of WAMI on:
 - (a) Policy Issues**
 - (i) Outcome of the Fourth Finance Ministers' Forum
 - (ii) Final Report on Self-Assisted WAMZ-wide Assessment of the Basel Core Principles.
 - (iii) Progress on Trade, Investment and Tax Issues in the West African Monetary Zone
 - (b) Legal Issues**

Implementation of the Legal Agenda for the West African Monetary Zone: Statute of the West African Financial Supervisory Authority (WAFSA)
 - (c) Administrative Issues**
 - (i) Proposals on WAMI's Work Programme and Budget for 2005
5. Any Other Business
6. Adoption of the Report
7. Closing

ANNEX III

SCHEDULE OF WAMZ MAJOR MEETINGS JANUARY – JUNE 2005

DATE	MEETINGS	VENUE
January 14	WAMZ Trade Ministers (9.00am – 10.00am) Convergence Council (10.00am – 12.00 noon)	Accra
January 19	WAMZ Summit (9.00am – 10.00am)	Accra
February 28 – March 1	Zonal Committee on Trade, Investment and Tax Issues	Accra, Ghana
March 7 – 20	WAMI's Multilateral Surveillance Missions	Member States
April 18 – 19	Expert Working Group on Statistical Harmonisation	Accra, Ghana
April 20 – 21	Committee of Bank Supervisors, Directors of Research and Legal Officers	Accra, Ghana
April 21 – 22	Zonal Committee on Payments System Development	Accra, Ghana
May 2 – 7	WAMZ Meetings: To consider study on WAMZ Programme: Technical, Governors, Convergence and Summit	Banjul, The Gambia
May 26 – 27	Legal and Institutional Issues Committee	Accra, Ghana

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December 9, 2004**

ANNEX IV

OUTSTANDING FINANCIAL CONTRIBUTIONS AS AT 31 AUGUST 2004 (US\$ Million)

COUNTRY	SCF			CAPITAL OF WACB					Grand Total
	1 st Tranche	2 nd Tranche	Sub-Total	1 st Tranche	2 nd Tranche	3 rd Tranche	4 th Tranche	Sub-Total	
The Gambia	0.00	1.75	1.75	0.00	0.00	1.75	1.75	3.50	5.25
Ghana	0.00	0.00	0.00	0.00	4.25	4.25	4.25	12.75	12.75
Guinea	2.75	2.75	5.50	2.75	2.75	2.75	2.75	11.00	16.50
Nigeria	0.00	14.90	14.90	0.00	15.00	15.00	15.00	45.00	59.90
Sierra Leone	0.05	0.65	0.70	1.25	1.25	1.25	1.25	5.00	5.70
Total	2.80	20.05	22.85	4.00	23.25	25.00	25.00	77.25	100.10

SCF - Stabilisation and Cooperation Fund
WACB - West African Central Bank

Note : At its meeting in Freetown, Sierra Leone in May 2004, the Convergence Council directed that all contributions on the two tranches of the SCF and the first two tranches of the WACB capital should be paid by August 31, 2004, while the last two tranches of the WACB capital should be paid by December 31, 2004

ANNEX V - TABLES ON THE BUDGET

TABLE E 1.1 RESOURCES NEEDED FOR THE STUDIES

- 1. Terms of Trade and Real Exchange Rate Shocks in the WAMZ**
 - a. Individual country analysis**
 - b. Zone -wide Analysis**

Two consultants would be required to work together on this study in order to share experiences and produce a robust and balance report.

Estimated Cost:

Professional fees for two (2) consultants @ \$10,000.00 each - \$20,000.00
Reimbursable Break down:

1. Air tickets to/from five WAMZ countries @ \$600x4x2=	\$4,800.00
2. Accommodation four nights per country @ \$100x4x2 =	\$3,200.00
3. Per diem for four days per country (16 days)x2x\$50 =	\$1,600.00
4. Local transportation @ \$100 per country x2x5 =	\$1,000.00
5. Generation of Report and translation =	\$3,067.00
6. Contingency =	\$1,000.00

Sub-total =	\$34,667.00

- 2. Fiscal and Debt Sustainability in the WAMZ**
 - a. Individual country analysis**
 - b. Zone -wide Analysis**

Two consultants would be required to work together on this study in order to share experiences and produce a robust and balance report.

Estimated Cost:

Professional fees for two (2) consultants @ \$10,000.00 each = \$20,000.00
Reimbursable Break down:

1. Air tickets to/from five WAMZ countries @ \$600x4x2=	\$4,800.00
2. Accommodation four nights per country @ \$100x4x2 =	\$3,200.00
3. Per diem for four days per country (16 days) x2x\$50 =	\$1,600.00
4. Local transportation @ \$100 per country x2x5 =	\$1,000.00
5. Generation of Report and translation =	\$3,066.00
6. Contingency =	\$1,000.00

Sub-total =	\$34,666.00
3. Contingency =	\$35,000.00