TOWARDS REGIONAL INTEGRATION IN THE WEST AFRICAN MONETARY ZONE

ACHIEVEMENTS, ISSUES AND THE WAY FORWARD

In honour of

Dr. Abwaku Englama

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Preface

Very little information on the regional integration agenda of the West African Monetary Zone exist in the public domain, despite its launch on December 15, 2000. The WAMZ comprises the six West African States of The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. Activities were mapped towards the realization of the WAMZ agenda, achievements have been recorded, to a large extent, in the face of various constraints, but challenges remain. Literature on the WAMZ, its activities, achievements and impediments have been scarce and not much is known about the Zone in promoting regional integration in the six West African States and in the ECOWAS. Therefore, it has become compelling and germane to document the impact and relevance of the WAMZ on the ECOWAS regional integration agenda.

This book documents the core issues towards regional integration in the WAMZ. It also examines the achievements, issues and the way forward to achieving monetary and economic integration in the Zone. The book adopts a qualitative approach, and where necessary some metrics, to analyze the achievements and headwinds to monetary and economic integration in the sub-region. The themes addressed centered on the following: understanding regional integration; nominal and real convergence; monetary policy framework and statistical harmonization; trade and financial market integration; payments system infrastructure; and legal and institutional frameworks. In addition to its chronicle of the remarkable achievements, the book equally documents some of the major impediments to monetary and financial integration in the WAMZ and highlighted the next steps
required for the envisaged regional integration to come to fruition.

The book is unique for two main reasons. First, it is in honour of one of the finest professional economic researchers, teacher and administrator, and the immediate past Director General of the West African Monetary Institute, Abwaku Englama (PhD). Second, it is conceived to be a unique contribution to enrich the body of knowledge, which is required to address the various impediments to regional integration in the WAMZ. With respect to the first motive, we consider it appropriate to celebrate Dr. Abwaku Englama in recognition of his contributions to promoting the regional integration agenda of the WAMZ, where he devoted four and half years of service as the Director General, West African Monetary Institute (WAMI), Accra, Ghana. He provided a solid platform for the Institute to record very significant achievements, despite serious constraints in both domestic and external environment. He retired from service in July 2017, after completing his tenure as the Director General of the Institute.

The publication would not have been a reality without the team of staff from WAMI, who worked tirelessly in a very short timeframe to articulate the various issues in the regional integration agenda. Specifically, we owe a huge debt of gratitude to the following staff: Dr. Olukayode Samson Odeniran; Dr. George Okorie; Dr. Sani Bawa; Messrs Chizor Uba-Osigwe, Nkenchor Neville Igue and Ibrahima Diallo who authored the various chapters of the book. In a related dimension, we are appreciative of the team of reviewers, Dr. Augustine Fritz Gockel and Mr. Banji S. Adebusuyi, for painstakingly reading through the initial draft and
providing very invaluable comments and suggestions that helped to better shape the book. In equal measure, we are very thankful to Mr. J. H. Tei Kitcher and Mrs Gladys Kufuor for their insightful comments and timely interventions based on their wealth of experience on regional integration issues. We appreciate other staff of WAMI, whose names are not mentioned here, for helping in one form or the other to ensure that this book was published as envisaged.

We hope that the book would be a useful reference material on regional integration to a vast spectrum of stakeholders, such as policymakers, academia and the public, in our collective quest to promote regional integration in West Africa. Finally, it is important to state clearly that the views in this book reflect entirely the thinking of the authors and do not in any way reflect the official position of the West African Monetary Institute.

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Following the collapse of the Bretton Woods system, most countries across the globe have continued to search for alternative institutional arrangements to advance their economic and political agenda. In this regard, the formation of monetary union, even at the most elementary stage of Free Trade Area, has been adjudged a veritable platform, which countries could leverage upon, to maximally harness their potentials. Monetary union offers a good prospect on several grounds including facilitation of trade among member countries, wider acceptability of the new currency, preservation of external reserves, better macroeconomic management framework, and development of the domestic financial markets.

In line with this globally acclaimed concept, monetary union has been on the African political and economic agenda over a long time. It is regarded as an important component of development strategy and therefore crucial in attaining economic development, promoting regional stability and guaranteeing African influence in international negotiations (Oshikoya 2013). More fundamentally, the most endearing allure of monetary union is the desire to offset perceived economic weakness of individual countries. The small size of most of the economies in the region is often regarded as a binding constraint to growth. A combination of these countries within the framework of a robust and credible regional integration scheme, would bring about a
sufficiently large market size to generate lower cost of production that could provide the integrated region with sufficient leverage to compete better with the rest of the world.

The West African Monetary Zone (WAMZ) was established by the Authority of Heads of State and Government of five West African Member States (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) in December 2000, with the objective of establishing the West African Central Bank (WACB) and the introduction of a single currency. The Republic of Liberia initially opted for an observer status, but transited to a full-fledged member in February 2010. The West African Monetary Institute (WAMI) was equally established to undertake technical preparations for the launch of the WAMZ.

The pursuit of the ultimate goal of the union has not been without some challenges, as is the case with other regional integration blocs globally, culminating in the shifting of the deadline on a number of occasions. The WAMZ monetary union was initially scheduled to commence in January 2003, after a convergence process. Despite efforts by the Member States to achieve nominal convergence required for the commencement of the monetary union, the launch was postponed to July 1, 2005 on account of other issues like non-convergence on real or structural parameters.

As such, member countries continued to strive to improve their macroeconomic performance. The efforts of member countries helped to moderate inflation and enhance accretion to foreign exchange reserves, but the level of macroeconomic convergence was not sufficient for the launch of the WAMZ monetary union. The
Authority, therefore, postponed the launch date to December 1, 2009 and endorsed an expanded work programme and Action Plan under the Banjul Declaration of May 2005. As the countries were working towards the new deadline, the world economy plunged into one of the worst macroeconomic imbalances in 2007/8, otherwise known as global financial and economic crisis (GFC). The GFC caused unprecedented macroeconomic imbalances in the zone, reversing nearly all the gains of previous years. Against this backdrop, the Authority, once again, postponed the launch of the monetary union to January 1, 2015, and adopted the Abuja Action Plan, 2009 (AAP) to enable macroeconomic convergence and realization of qualitative benchmarks. Owing to the dependence of the economies of the WAMZ on the export of primary commodities, the slump in most commodity prices and the outbreak of the Ebola Virus Disease (EVD) between 2014 and 2015 adversely affected the performance of Member States on the macroeconomic convergence criteria. This did not only distort the progress of recovery from the GFC, but equally contributed to the shift in the date of launch to January 2020.

The setbacks notwithstanding, WAMZ has made remarkable progress in a number of key areas of monetary integration. These include the ratification of ECOWAS Protocols and Conventions on free movement of persons among member states, the adoption of Common External Tariffs (CET) and ECOWAS Trade Liberalization Scheme (ETLS) in a number of Member States, improvements in the payments system, robust macroeconomic framework in the zone, the establishment of the West African College of Supervisors, as well as the ongoing harmonization of banking laws and framework. In light of these, it could
be reasonably inferred that the efforts of the sub region in forming a monetary union have been worthwhile, as the process has moved beyond the level of free trade area and custom union while the target of single market is within a good view.

Although the WAMZ has recorded significant milestones in the pursuit of the integration agenda of the sub-region, the records of such achievements are largely out of public domain. This, invariably, has raised skepticism about the likelihood of the actualization of the monetary union. Besides, the numerous challenges confronting the regional integration prospects have been largely ignored, partly due to the fact that the issues have not filtered to critical stakeholders, in view of the paucity of communication channels for the programmes and initiatives of WAMI. The importance of updating the stakeholders, particularly the private sector operators, academia and policymakers, is further underscored by the compelling need to elicit their interest towards addressing critical challenges and therefore provide a good leverage to move forward in achieving an enduring monetary union for the sub-region. The afore-mentioned issues, among others, constitute the primary motivation for writing this book.

The remainder of the book is organized as follows: chapter two examines the concept of regional integration, while chapter three documents regional integration experience in West Africa drawing lessons from the EU. Chapter four focuses on the road to integration in the WAMZ, presents its achievements and examines the issues that are undermining the integration agenda. Chapter five discusses the way forward on the regional integration path, while chapter six concludes.
Economic Integration

Economic integration could be broadly defined as gradual elimination of economic frontiers between independent states or different parts of a state, resulting into the economies functioning as one entity, with the objective of increasing economic welfare. There are three basic approaches to economic integration, namely: global integration (via WTO); bilateral integration between two countries; and, regional integration. It normally entails four freedoms, namely: free movement of goods, services, workers and capital. The area of regional economic integration has been a subject of interest to economists and policymakers over a long period of time. A prominent and dominant narrative in economic literature is the work of Balassa (1961). He defined economic integration as measures designed to abolish discrimination between national economies. This is achieved by unifying economic policies among the economies through the partial or full abolition of tariff and non-tariff barriers to trade, as well as harmonize fiscal and monetary policies. Nations choose to unify their economic policies to derive benefits arising from economic integration. Formal economic integration takes place in stages, beginning with the lowering and subsequent elimination of all barriers to trade, culminating in the creation of a monetary union.
He identified five stages of economic integration to include free trade area (FTA), customs union, common market, economic union and fiscal or political union (complete economic integration). In a free trade area, members eliminate tariffs, non-tariff barriers and other quantitative restrictions among themselves, but retain their own external tariff on imports and other trade regulations with the rest of the world. The next level is customs union, which goes further than FTA by requiring members to implement common external tariffs (CET) on imports from outside the union, while suppressing tariff and non-tariff barriers within the union with the aim of facilitating free flow of goods and services across borders. Thus, a customs union builds on an FTA by requiring member countries to harmonize their external trade policies in addition to eliminating internal barriers to trade.

Common market, on the other hand, implies that obstacles to the free movement of factors of production (labour, capital, services and persons) are eliminated. Thus, in addition to adhering with the provisions of a customs union, a common market ensures the free movement of people, capital and other resources. Creation of a common market involves adherence to common rules, which are administered by common institutions. The instruments necessary to establish a common market are trade liberalization programme, common external tariff, coordination of macroeconomic policy and the adoption of sectoral agreements, among others. The goal is the free movement of capital, labour, goods, and services among member countries. A common market has many benefits, such as efficient allocation of factors of production; higher level of productivity; intensification of competitive market
forces; economies of scale and higher profitability of firms.

An economic (monetary) union is where participating member countries agree to adopt a common currency and a single monetary policy with a common central bank in addition to all the features of a common market. The formation of an economic union is expected to eliminate exchange rate variability and uncertainty among member states, thereby increasing trade and investment. The benefits of having a monetary union are many. By unifying monetary and coordinating fiscal policies, participating countries have fewer distortions, greater cross-border investments, promoting economic growth and stable macroeconomic performance. It brings greater development and integration of capital markets, assists the unification of bond and equity markets, as well as the general efficiency of financial services. Countries operating in a monetary union will have a stronger unified voice in their external relations. However, the major cost of a monetary union is the loss of independence over monetary and exchange rate policy. The absence of independent monetary policy as a tool of macroeconomic management can exacerbate the impact of an asymmetric shock on individual Member States. There is also the loss of seigniorage revenue, change-over costs in switching to a new currency and administrative costs due to formation of new institutions.

Fiscal or political union is the highest stage of regional integration. It combines the removal of trade restrictions and free flow of factors of production with the harmonization of monetary, fiscal, social and countercyclical policies. It also requires the setting up of a supranational authority whose decisions are
binding on member countries. Complete economic integration usually assumes an important dimension in the integration process, especially when a single economic space has been created.

**Theory of Optimum Currency Areas**

The theory that dominates discussions on the desirability of a monetary union is the Optimum Currency Area (OCA) theory pioneered by Mundell (1961), which addresses the pre-conditions for an ideal monetary union. He defines an OCA as a region in which factors of production are internally mobile within the region, but internationally immobile, so as to facilitate an intra-regional redistribution of resources in response to demand shifts. Thus, an OCA is an optimal geographic area for a single currency, or several currencies, whose exchange rates are irrevocably pegged and may be unified. The single currency, or the pegged currencies, would only fluctuate jointly against other currencies. The domain of the OCA is defined by the sovereign nations committing to adopt the single currency. The theory considers whether shocks affecting Member States’ economies are sufficiently identical to allow the execution of a common monetary policy among them.

The OCA theory identified the pre-conditions for an optimal currency area to include mobility of factors of production, high degree of economic openness, diversification of production and consumption structure, high degree of price and wage flexibility, similarity of business cycles, similarity of inflation rates, financial market integration, fiscal integration and political integration. It began with Mundell (1961), McKinnon (1963) and Kenen (1969), with three main
OCA criteria for monetary integration being identified as factor mobility, the degree of economic openness and diversification in production and consumption.

Mundell (1961) identified the mobility of factors of production including labour, as the first criterion. High integration in the factor market and adequate factor mobility in a region can lessen the need to adjust real factor prices, and the nominal exchange rate, between countries in response to disturbances. If one country suffers a recession due to a negative shock, factors of production may move from this country to another, which is hit by a positive shock. Hence, prices of these factors do not need to fall so sharply in the country hit by the recession and rise in the booming country. The factor mobility is then able to compensate for the exchange rate changes. The second criterion, espoused by McKinnon (1963), is the degree of economic openness. The higher the degree of openness, the more the changes in international prices of tradables are likely to be transmitted to the domestic cost of living. Also devaluation would be more rapidly transmitted to the price of tradables and the cost of living, negating its intended effects. Hence, the nominal exchange rate would be less useful as an adjustment instrument for small open economies. Kenen (1969) identified the third criterion – diversification in production and consumption. A high diversification in production and consumption diminishes the possible impact of shocks specific to any sector. Therefore, diversification reduces the need for changes in the terms of trade via the nominal exchange rate and provides “insulation” against a variety of disturbances. The more diversified partner countries are, the more likely they are to absorb the costs from forsaking nominal exchange rate
changes among them and find a common currency beneficial.

Other criteria identified include price and wage flexibility. When nominal prices are flexible between and within countries contemplating a common currency, the transition towards adjustment following a shock is less likely to be associated with sustained unemployment in one country and/or inflation in another. This will in turn lessen the need for nominal exchange rate adjustments. However, if nominal prices and wages are rigid downwards, some measures of real flexibility is possible by means of exchange rate adjustments, and the loss of direct control over the nominal exchange rate instrument would represent a cost. Price and wage flexibility are therefore important in the short-run to facilitate the adjustment process following a shock.

Another essential criterion is the similarity of supply and demand shocks and business cycles in countries using a common currency. Monetary and exchange rate policy cannot be utilized as a stabilization tool by a member country experiencing an asymmetric shock. Consequently, business cycles of countries considering establishing a currency area need to be similar to an extent. Financial market integration is also an essential criterion that can reduce the need for exchange rate adjustment. It helps in cushioning temporary adverse disturbances through capital inflows (by borrowing from surplus areas or de-cumulating net foreign assets that can be reverted when the shock is over). Under a high degree of financial integration, even modest changes in interest rates would elicit equilibrating capital movements across partner countries. This would reduce differences in long-term interest rates, easing
the financing of external imbalances and fostering an efficient allocation of resources.

Similarities of inflation rates are also required prior to the establishment of an OCA. External imbalances can arise from persistent differences in national inflation rates resulting from disparities in structural developments, diversities in labour market institutions, differences in economic policies, and diverse social preferences, among others. When inflation rates between countries are similar over time, terms of trade will also remain fairly stable. This will foster more equilibrated current account transactions and trade, and reduce the need for nominal exchange rate adjustment. Fiscal integration involves the redistribution of financial resources from relatively richer countries and those experiencing positive shocks to relatively poorer countries or those hit by adverse asymmetric shocks. However, fiscal integration requires a certain degree of political integration. Political integration, which is also one of the most important criteria in implementing a single currency, promote compliance with joint commitments, sustains cooperation on various economic issues and encourage more institutional linkages, among others. Haberler (1970) indicated that political integration among countries is important in turning a group of countries into a successful currency area.

There would almost undoubtedly be no monetary union in real life, even within the same country, if all the conditions of OCA are to be fully satisfied at the same time. Consequently, the creation of a monetary union and the introduction of a common currency generally deviate from the theory of the OCA in some areas. Furthermore, as observed by Kim (2007), it must be
taken into account that the establishment of a monetary union with a single currency is likely to stimulate trade integration and thus improve ex-post the conditions for a monetary union. Countries that are decidedly integrated with each other in terms of trade and other economic relationships are likely to constitute a monetary union.

A variant of the OCA theory is the measure of convergence of various macroeconomic indicators among countries of a region, viewed as criteria for membership (Debrun et al, 2010). This is inspired by the convergence criteria established in Europe for membership in the Euro zone. In some cases, it is not grounded in any specific theory, but simply monitors indicators that countries within a given union have themselves adopted as entry criteria. For instance, the WAMZ considered the achievement of benchmark criteria as part of its assessments for countries’ readiness for monetary union. Achievement of such criteria on a sustainable basis is a pre-requisite for the formation of a credible monetary union within the Zone.
The relative success of the European integration process has spurred different regions across the globe to establish regional integration blocs. These include: the Association of South East Asian Nations (ASEAN), the Gulf Cooperation Council (GCC), the Common Southern Market (MERCOSUR) and the Central European Free Trade Agreement (CEFTA). Those in Africa include: the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Southern African Customs Union (SACU), the Southern African Development Community (SADC), the Economic and Monetary Union of Central Africa (CEMAC), the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), and the West African Monetary Zone (WAMZ). In addition to reviewing the regional blocs in West Africa, the chapter also examines the EU’s experience with regional economic and monetary integration with a view to drawing some useful lessons that can be applied to the WAMZ integration project. This is necessary in light of the fact that the EU is generally adjudged as the most successful regional integration bloc in the world, in terms of both the age and level of achievements. Therefore, it is logical for evolving regional blocs to examine issues or factors that have helped the bloc to achieve such feat. Moreover, the
ECOWAS and WAMZ projects appear to adopt the EU model of regional integration.

The Economic Community of West African States (ECOWAS)

ECOWAS was established on May 28, 1975. It comprises fifteen (15) West African countries namely: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. The Protocols launching ECOWAS were signed in Lome, Togo on November 5, 1976. In July 1993, a revised ECOWAS Treaty, designed to accelerate economic integration and increase political co-operation was signed. ECOWAS has been designated as one of the five regional pillars of the African Economic Community (AEC).

The objectives of ECOWAS are to: promote co-operation and integration leading to the establishment of an economic union in West Africa, with the aim of raising the living standards of its peoples; ensure economic growth; foster relations among Member States and contribute to the progress and development of the African continent.

The ECOWAS Commission is an institution of ECOWAS saddled with the economic integration agenda. The specific mandates are to: harmonize and coordinate national policies and promote integration programmes, projects and activities, particularly in food, agriculture and natural resources, industry, transport and communications, energy, trade, money and finance, taxation, economic reform policies, human resources, education, information, culture, science, technology, services, health, tourism and legal matters; promote the
establishment of a common market through: the liberalization of trade by the abolition of customs duties levied on imports and exports among Member States, elimination of non-tariff barriers in order to establish a free trade area at the Community level; adoption of a common external tariff and a common trade policy vis-à-vis third countries; the removal of obstacles to the free movement of persons, goods, services and capital and to the right of residence and establishment; the establishment of joint production enterprises; establishing an economic union through the adoption of common policies in the economic, financial, social and cultural sectors, and create a monetary union, among others. The key pillars for integration in ECOWAS include: monetary integration, infrastructure, trade integration, financial integration and community development, among others.

**West African Economic and Monetary Union (WAEMU)**
The West African Economic and Monetary Union (Union Economique et Monétaire Ouest Africaine - UEMOA) was created by a Treaty signed in Dakar, Senegal, on 10th January, 1994, by the Heads of State and Government of the Member States, which includes Benin, Burkina Faso, Côte d’Ivoire, Mali, Niger, Senegal and Togo). Guinea Bissau acceded to the treaty in 1997. WAEMU was formed on the foundations of a long history of political and monetary co-operation between France and its former colonies in West Africa. The CFA Franc was created on 26th December 1945 in the wake of the Bretton-Woods Conference, in order to cushion the colonies from a strong devaluation of the French franc.
The objectives of WAEMU are to: strengthen the competitiveness of the economies of Member States based on free market principles; ensure the convergence of the economies of Member States through a multilateral surveillance mechanism; create a common market premised on free movement of persons, goods and services, rights of residence to undertake independent commercial activity or paid employment; ensure the coordination of national sectoral policies within the framework of a common external tariff and common trade regime, to the extent necessary for the functioning of the market; and harmonize the national laws of Member States, particularly the fiscal/tax policies or any other areas necessary for the enhancement of economic growth within the Union, while remaining committed to the objectives of ECOWAS and the African Union.

The UEMOA Commission pursues the general aims and objectives of WAEMU and provides the link between the political authorities in the Member States and the various organs of the Union. The Commission transmits recommendations and views it considers useful for the preservation and development of the Union to the Conference and the Council. Further, it implements the budget of the Union, and forwards an annual general report to the Inter-Parliamentary Committee of WAEMU. The Commission also provides a wide-ranging socioeconomic role for the advancement of the living standards of Member States. The key pillars in WAEMU include trade integration, community development, economic integration, food and agriculture, among others.
The West African Monetary Zone (WAMZ)
The WAMZ comprises six Member States namely: The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. The WAMZ was established by the Authority of Heads of State and Government in 2000, with the objective to undertake preparatory activities leading to the introduction of a single currency and establishment of a single central bank. The WAMZ programme was conceived out of the desire to fast-track the ECOWAS Monetary Cooperation Programme (EMCP) of 1987, which seeks to achieve a harmonised monetary system and common institutions, among other things.

In an attempt to fast track the EMCP, a Two-Track Approach to monetary integration was adopted by ECOWAS Authority of Heads of State and Government, culminating into the establishment of the WAMZ. Prior to the formation of the WAMZ, WAEMU had been in existence since 1994, pursuing the goals of monetary and economic integration in the eight-nation bloc. The Two-Track Approach was intended to merge the two monetary integration blocs, WAEMU and WAMZ, after the fulfilment of the minimum convergence requirements for the formation of monetary union in ECOWAS.

The WAMZ project is guided by ten programme areas, anchored on five strategic pillars. The programme areas are: (i) monitoring and reporting on macroeconomic convergence; (ii) statistical harmonization (iii) creation of customs union; (iv) development of zonal payments and settlements system for cross border transactions; (v) financial sector integration; (vi) ratification and incorporation into national law of WAMZ legal instruments; (vii) activation of WAMZ institutions, such as, the WAMZ Secretariat, the West African Financial
Supervisory Authority (WAFSA), as well as the Stabilization and Cooperation Fund (SCF), (viii) sensitization; (ix) preparation towards the introduction of Eco; and (x) promoting regional development. The strategic pillars are: macroeconomic convergence; trade and regional integration; financial integration; payments system infrastructure; and institutional capacity building.

As the WAMZ programme evolved over the years, the mandate of WAMI, which was established to undertake technical preparations leading to the introduction of a single currency and the establishment of a single central bank for the WAMZ, was expanded by the Banjul Treaty in 2005 to promote regional development and integration, in particular trade and financial integration. Since the establishment of the WAMZ, the Member States have not met the minimum convergence criteria as well as structural benchmarks required for the launching of a monetary union, resulting in four postponements. Hence the delay in the proposed merger of the two blocs.

Following the transformation of ECOWAS Secretariat into a Commission in June 2007, the Commission was directed by the ECOWAS Authority to re-examine the EMCP with a view to introducing a single currency in the region. The re-examination of the EMCP resulted in the preparation of a roadmap for the ECOWAS Single Currency Programme, which was adopted by the ECOWAS Convergence Council on May 25, 2009 with two major objectives: (i) introduce single currency in the WAMZ by January 2015; and (ii) introduce single currency in ECOWAS by 2020.
In a bid to intensify efforts of realizing the long-standing monetary integration goals of ECOWAS, the regional Authority at its Extraordinary Summit held on October 25, 2013 in Dakar set up a Presidential Task Force to oversee the creation of a single currency in ECOWAS. The Task Force made recommendations to the 44th Ordinary Session of Heads of State and Government of ECOWAS on March 24, 2014 in Yamoussoukro, Cote d'Ivoire relating to, among others, abolition of the Two-Track Approach for a One-Track Approach and revision of the roadmap of activities for implementation. One key component of the roadmap is the establishment of an ECOWAS Monetary Institute (EMI) by January 2018. The EMI is expected to be a transitory organization that would undertake preparatory activities for the establishment of the common central bank in ECOWAS. All activities currently undertaken by some regional institutions, within the mandate of the proposed EMI, would be taken over by EMI once it commences operations. The ECOWAS Authority at its 45th Ordinary Session, held on July 10, 2014, in Accra, Ghana, adopted the Single-Track Approach to monetary union in West Africa as well as the establishment of the EMI.

**The European Union**

Concrete efforts to attain economic and political unity in Europe originated after the Second World War in 1945. Following the Schuman Declaration in 1950, six countries in Western Europe – Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands shared the vision to unify their economies to avert future occurrence of war in Europe. Initial steps at integration started with linking major industries of the region such as coal and steel industries, together. To strengthen this step, tariffs and subsidies were lowered,
and national cartels dismantled. But unlike other forms of postwar economic cooperation, the integration of Europe was defined by the creation of supranational institutions. These institutions evolved over the years into the executive, legislative, and judicial arms, with the European Parliament becoming the legislative body of the union. Membership of the union gradually expanded following the joining by Denmark, Ireland, and the United Kingdom, and later by newly democratic States of Greece, Portugal, and Spain. The countries benefited enormously from free trade and common policies, as well as structural funds that were set up to foster convergence by funding infrastructure and productive investments in poorer regions (Moghadam, 2014).

The collapse of communism in centrally planned economies of Europe in the late 1980s, particularly the collapse of the Berlin wall marked a turning point in the integration experience of Europe. Several countries emerged from communism and transited to capitalism during this period. The general price level rose in those countries in response to demand and supply conditions. The deterioration in prices was more pronounced in countries where state incomes declined, forcing governments into deficit financing by the central bank. Banking crisis became systemic in the face of widespread currency devaluation. In some cases, where there was adequate political and institutional support for fiscal and monetary discipline, stabilization was achieved within a couple of years, while others faced longer or multiple attempts to establish low inflation and sustainable public finances (Moghadam, 2014). Following economic stabilization, these countries shifted attention to institutional reforms and the adoption and reliance on credible monetary and
exchange rate frameworks in order to improve the performance of their economies in line with international best practice. Financial sector integration has been largely successful, with Western European banks supporting those in the transition countries and transferring the requisite skills in finance.

Differentials in exchange rate between member countries was reduced through the European Exchange Rate Mechanism (ERM), which permitted currencies to fluctuate around parities within predefined bands. In 1990, exchange controls within the European Economic Community were abolished, allowing for the free flow of capital. On *Black Wednesday* in 1992, Britain was forced out of the ERM when the pound sterling suffered attack and fell below ERM limits. Overtime, realignments became less frequent as monetary policies and inflation rates converged.

While the EU started as a regional bloc, the idea of a common currency gained momentum, following the *Maastricht Treaty* of 1992, where the Economic and Monetary Union, including a common currency and monetary policy was declared. The Maastricht Treaty established convergence criteria designed to ensure that countries joining the common currency would be sufficiently similar in order to benefit from a single monetary policy. To entrench fiscal discipline after the common currency was introduced, member countries signed the Stability and Growth Pact in 1997, which was designed to tie policies to fiscal balance and debt targets. In all, the fundamental basis for the euro was built on the premise that market forces, combined with effective coordination of policies and disciplined fiscal policies would enable countries to withstand unforeseen shocks.
However, the global financial crisis which started in September 2008 culminated in the euro area’s sovereign debt crisis. The crisis exposed severe imbalances and weaknesses in the European integration architecture. The global financial crisis and its after-effects in the euro area also presented tough challenges for the euro area. In responding to the crisis, far reaching policies were adopted. Priority attention was given to the restoration and stabilization of the financial sector. Affected Member States, relaxed reserve requirements, increased system liquidity, and in some cases, intervened directly in crisis ridden financial institutions.

The financial crisis that hit the euro area in the late 2000s brought to the fore the destructive vicious cycle of either weak government balance sheets, which undermined the soundness of banks’ as in Greece, and damaged government credit, as in Ireland. This connection threatened the entire region. To address Europe’s banking problem, the roadmaps for establishing a European banking union, which essentially transfers banking policy from the national to the European level commenced in June 2012. This step eventually conferred on the European Central Bank (ECB) the supervisory authority over most of Europe’s banking system by 2015.

The factors that led to Europe’s banking crisis can be traced to the conception of the monetary union. Member States of the EU set for themselves, ambitious objectives and targets to remove cross-border barriers to entry and exit of financial institutions. In reaction, nationalism ideologies led to undue protection and promotion of national banks by member countries to place them at a
vantage position in an increasingly competitive environment, despite the associated risks (Véron, 2014). This form of “banking nationalism” effectively downgraded prudential concerns about risk accumulation and most members were unwilling to identify and report on weak banks for fear of putting their banking sector at a disadvantage position.

Subsequently, Europe’s unresolved banking crisis culminated in the euro area’s unfolding sovereign debt crisis. As the financial crisis spread, an increasing number of investors and policymakers started to consider the possibility of a euro area breakup. The pressure generated by this environment led to a number of major policy changes in key Member States and in the European Union as a whole. In the United Kingdom, the systemic nature of the crisis gave impetus to the contemplation that the country should separate itself from the continent and not to participate in further institutional arrangements (Véron, 2014). Proponents of Brexit argued that the EU is a dysfunctional economic entity, which had failed to address the economic problems that had been developing since 2008, such as high rate of unemployment. It was believed that Europe as a whole had stagnated, and growth was increasingly becoming uneven among Member States, while unemployment was rising steadily across the region. Furthermore, some countries like the UK believed that its financial system was far well developed even before joining the EU, with little or no value addition from the EU system.

The other reason is the growing distrust of post-World War II institutions. Many believed that these institutions were no longer serving the purpose for which they were created. Not only that these
organizations took control away from individual nations, mistrust and fear of losing control made Brexit a reasonable option. The immigration crisis in Europe was a trigger. Some EU leaders argued that aiding the refugees was a moral obligation. But others saw it as a national issue, as it affected the internal affairs of the country. Brexit when it eventually came, shook the very foundations of the EU system and left behind aftershocks.

**Lessons from the European Union for the WAMZ Integration Agenda**

Evidence from the review of EU’s experience reveal that it took several years for the region to establish an economic and monetary union. The absence of a seamless integration of the centrally planned economies of Europe into the union and the challenges encountered with the transition to market based systems, considerably delayed the integration project. In the case of the sub-region, monetary integration in the West Africa has been delayed due to Member States’ inability to simultaneously and robustly comply with the convergence criteria set by the regional Authority. As earlier revealed, ECOWAS has experimented with various approaches ranging from the ‘single-track’ approach to the ‘double track’ approach, which led to the establishment of the WAMZ – a parallel regional economic bloc to an existing WAEMU Zone. The intention was to merge the two blocs, upon the fulfilment of the minimum convergence requirements for the formation of a monetary union in ECOWAS. Following the sluggishness in the realization of this vision, the regional Authority in March 2014 obtained the approval of the Heads of State and Government of ECOWAS to revert to the ‘single-track’ approach, as it
emerged that there was no significant progress in the ‘two-track’ approach compared to the ‘single-track’ approach as regards compliance with the macroeconomic convergence criteria. Apart from meeting the requirements of the nominal macroeconomic convergence criteria, the critical factors that fostered monetary union in the EU were adequate political and institutional support for fiscal and monetary discipline, which appears to be lacking in the WAMZ.

There are two monetary union arrangements in ECOWAS – the WAEMU monetary union with a fixed currency anchored to the euro and the WAMZ countries with variants of flexible exchange rate regimes. The anchor currency absorbs the shock and ensures discipline and compliance with the convergence criteria for the WAEMU countries. However, the WAMZ countries do not benefit from such an advantage because the flexible exchange rate mechanism practiced would have to individually absorb shocks. The EU when faced with a similar dilemma, reduced exchange rate disparities in Member States through the European Exchange Rate Mechanism (ERM), which allowed national currencies to fluctuate within predefined bands. Drawing from the experience of the EU, it may be necessary to harmonize the exchange rate mechanism of the two blocs prior to the introduction of a single currency and the establishment of a regional central bank, for the monetary and exchange rate policies to have a balanced and homogenous impact across the region. Similarly, the WAMZ would also benefit from Member States entering into an agreement similar to that of the EU’s Stability and Growth Pact to enforce budgetary discipline and sound public finances, so as not to jeopardize the WAMZ integration agenda.
In 2005, the Banjul Declaration identified trade integration as integral to the monetary integration process. WAMZ countries have made substantial progress towards complying with ECOWAS trade and trade-related protocols and conventions such as the ETLS and CET, among others. Complying with these trade-related protocols and conventions have been challenging and may have contributed to the low-level of trade in the Zone. These challenges among many include: the lingering issue of import and export prohibition of selected items in some countries, stringent business registration requirements for non-nationals in exclusively reserved sectors in some economies, and lack of institutional commitment and political will to the WAMZ integration agenda.

The experiences from the EU reveal a high level of intra-regional trade. The success of the EU in this area is facilitated, among others, by fully liberalized capital account regimes and floating exchange rates, fully developed and interlinked payments and settlements system infrastructure, fully established supportive institutional arrangements and clearly defined regulatory frameworks. It will therefore be necessary for the WAMZ to put in place policies, institutions and facilities in order to improve on the current low level of intra-regional trade.

The absence of a regional authority to enforce compliance with agreed protocols is a major factor hindering adherence to regional conventions in West Africa. This is unlike the European Commission, which not only interpret rules, but enforce agreements without recourse to national parliaments. This in essence suggests the need to establish a Commission in the
WAMZ, which would have full power to compel Member States to implement the various protocols and conventions that are in place.

The global financial crisis brought to the fore the inherent risks, which the absence of a banking union poses to regulation and supervision of banks in a monetary union. This is against the background that the national regulatory authority could have regulatory arbitrage to the detriment of the system. This is a major experience from the EU that ECOWAS with its growing number of cross border banks could leverage on. A banking union would help in forestalling regulatory arbitrage by national supervisors in order to avoid a financial crisis. Establishing a banking union in ECOWAS and its sub-regional blocs reinforces the argument for a regional banking crisis resolution framework, which would be relied upon to address crisis situations when they occur.

Other forces at work that could hinder the ECOWAS, WAMZ and WAEMU monetary integration and single currency programme include: the rising cases of insecurity in some Member States, growing agitation by Civil Society Organizations for the monetary union to be expedited, the threat posed by the emergence of cryptocurrencies around the globe, and decline in correspondent banking relationship in West Africa - largely due to lax implementation of Anti Money Laundering/Counter Financing of Terrorism (AML/CFT). Others include small scale/illegal mining activities in some Member States as well as the growing threat to the blue economy.
4.1 Achievements

Regional integration entails both monetary and economic and monetary integration. Therefore, progress in the regional integration in the WAMZ would be undertaken by analyzing monetary and economic integration efforts of the Zone.

4.1.1 Monetary and Economic Integration

Monetary integration would succeed if economies involved are converging, in other words, their macroeconomic fundamentals and policies align with each other. Convergence does not necessarily connote equality due to the expectations of short-run deviations. As such, performances would always differ due to reactions of member countries to macroeconomic shocks, eliciting heterogeneous responses which may adversely affect the group. For convergence of the group to occur and be meaningful, it must be with respect to some targets.

The state of economic and monetary convergence in the six-member countries of the WAMZ is examined using a common framework: the WAMZ Macroeconomic Convergence Criteria and the Banjul Action Plan. The framework consists of four (4) primary and two (2)
secondary nominal macroeconomic convergence criteria, which was adopted in analyzing the disparities in economic performance of Member States of the Zone (table 1). Member States are required to satisfy the following four primary criteria: single-digit inflation, fiscal deficit (excluding grants) of not more-than 3.0 percent of GDP, central bank financing of fiscal deficit of not more-than 10 percent of previous year’s tax revenue, and gross external reserves of not less-than 3.0 months of import cover. In addition, Member States are required to satisfy the two secondary criteria, which are the public debt criterion (less than 70.0 percent of GDP) and exchange rate variability criterion (±10.0 per cent). Primarily, the essence of putting in place convergence criteria is to help the region achieve both internal and external balance, which would increase the resilience of the monetary union to shocks. Specifically, inflation convergence is used to ensure domestic price stability; and adequacy of foreign exchange reserves, the stability of domestic currency in relation to foreign currencies. Both the fiscal deficit and central bank financing of government expenditure caps are to ensure the stability of domestic price level. The attainment of convergence criteria on sustainable basis is expected to lead to nominal and real convergence amongst member countries, which is very critical for monetary integration to take place.
Table 1: Convergence Criteria in the WAMZ

<table>
<thead>
<tr>
<th>Primary Criteria</th>
<th>Target</th>
</tr>
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<tbody>
<tr>
<td>Inflation</td>
<td>&lt; 10%</td>
</tr>
<tr>
<td>Fiscal deficit/GDP ratio</td>
<td>≤ 3%</td>
</tr>
<tr>
<td>Central bank financing of fiscal deficit as % of previous year’s tax revenue</td>
<td>≤ 10%</td>
</tr>
<tr>
<td>Gross external reserves (months of import cover)</td>
<td>≥ 3 months</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Secondary Criteria</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate variability</td>
<td>± 10%</td>
</tr>
<tr>
<td>Public debt/GDP ratio</td>
<td>≤ 70%</td>
</tr>
</tbody>
</table>


Nominal Convergence

Inflation

The satisfaction of this criterion requires that inflation should be single digit. The performance of member countries on inflation for the decade spanning 2008 to 2017 is presented in table 2 below. The performance of individual countries shows that on the average, about half of the members met the criterion since the launch of the WAMZ in 2001. The number of countries that satisfied this criterion declined from the peak of 5 in the period 2014-2015 to 2 in the most recent period of 2016-2017. Although a lot of policy measures had been deployed to stem inflationary pressures by member countries, it had not succeeded in reducing growth in price levels to single digit due to depreciation of the local currencies and supply-side constraints. When we
examine the country level performance with respect to this criterion since the launch of the WAMZ, there was no time that all the member countries satisfied this benchmark criteria. The Gambia and Guinea were the only countries that consistently met the criterion in the past five years (2013-2017). However, Ghana, Liberia, Nigeria and Sierra Leone recorded double digits.

### Table 2: Status of Compliance with Primary Convergence Criteria

<table>
<thead>
<tr>
<th>Inflation, end period (Target = Single digit)</th>
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<tbody>
<tr>
<td><strong>Country/Year</strong></td>
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<td>Guinea</td>
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<td>Liberia</td>
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<td>Nigeria</td>
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<tr>
<td>Sierra Leone</td>
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<table>
<thead>
<tr>
<th>Fiscal deficit/GDP (%) excluding grant (-=surplus)(Target=≤-3%)</th>
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<tr>
<td><strong>Country/Year</strong></td>
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<td>------------------</td>
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<tr>
<td>Gambia</td>
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<td>Ghana</td>
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<td>Guinea</td>
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<td>Liberia</td>
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<td>Nigeria</td>
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<tr>
<td>Sierra Leone</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Central bank financing of fiscal deficit as % of previous year's tax revenue (Target=&lt;10%)</th>
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<tbody>
<tr>
<td><strong>Country/Year</strong></td>
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<tr>
<td>------------------</td>
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<tr>
<td>Gambia</td>
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<td>Ghana</td>
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<td>Guinea</td>
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<td>Liberia</td>
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<td>Nigeria</td>
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<td>Sierra Leone</td>
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<table>
<thead>
<tr>
<th>Gross external reserves (months of import cover)(Target=≥3)</th>
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</thead>
<tbody>
<tr>
<td><strong>Country/Year</strong></td>
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<tr>
<td>Gambia</td>
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<td>Ghana</td>
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<td>Guinea</td>
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<td>Liberia</td>
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<tr>
<td>Nigeria</td>
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<tr>
<td>Sierra Leone</td>
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</tbody>
</table>

Source: WAMI convergence reports (various years)
The trend of inflation in the Zone can be explained by both external and internal factors. On the internal or domestic front, inflation was elevated in the WAMZ largely due to increased domestic demand, buoyed by changing tastes and preferences of the populace and supply-side constraints in the form of changes in administered prices of the likes of petroleum products, utilities and infrastructural bottlenecks. On the external front, the strong pass-through effect of the rise in global energy and food prices have had very strong impact on the economies of member countries due to the heavy reliance on imports of manufactures, semi-finished goods, raw materials and consumables. Another channel through which imported goods impacted on domestic price level was the exchange rate pass-through as the currencies of member countries witnessed significant depreciation during the period.

**Budget Deficit (excluding Grants) as a Ratio of GDP**

Achieving this criterion (fiscal convergence) requires that fiscal deficit of Member States should not exceed 3.0 per cent of the GDP. Only two countries, Nigeria and Liberia satisfied this criterion consistently since 2011. The remaining four member countries have had serious challenges in meeting this criterion, particularly on consistent basis. The Gambia and Sierra Leone did not meet the criterion at any point in time during the review period, while Ghana and Guinea met the criterion once and thrice, respectively. Member countries were unable to meet the benchmark criterion due to the increasing need to meet budgetary expenditures, arising from shortfalls in revenue projections and the heavy reliance on primary commodity exports. This resulted in the upward trend in public debt of Member States, leading to fiscal policy slippages and difficulty in satisfying the criterion in the short- to near-term. The reason for
Nigeria’s consistent performance on this criterion is attributable to its fiscal rule as enshrined in the Fiscal responsibility Act, not to exceed 3.0 per cent of GDP on fiscal deficit at any given year.

Central Bank Financing of Budget Deficit
This criterion stipulates that central bank financing of fiscal operations should not exceed 10.0 per cent of previous year’s tax revenue. At the launch of the WAMZ, member countries relied heavily on the central banks to finance public expenditures, constraining their ability to meet this criterion and efforts towards the integration agenda. Apart from Nigeria, none of the countries in the Zone met the criterion on consistent basis during the review period. A breakdown of the performance reveal that Liberia performed relatively better as it experienced slippage only in 2017, unlike The Gambia and Ghana which experienced slippages in four. The performance of Guinea and Sierra Leone is exceedingly worrissome because they experienced slippages in seven and five years, respectively. The seemingly impressive performance of Nigeria on this criterion is the adoption of ‘fiscal rule’ in the projection of government revenue. Specifically, the country has developed a medium-term fiscal framework, which is anchored on a robust forecast of revenues and expenditures by setting a benchmark price on crude oil. This essentially insulates the implementation of the budget from the volatility in the price of crude oil and invariably smoothen out fluctuations in budget performance over time.

Gross External Reserves (months of imports cover)
The criterion requires Member States to maintain international reserves that would be adequate to finance at least three months of imports. The performance of member countries has been relatively
good on this criterion, given that most of the countries were able to meet the criterion on consistent basis, except on few occasions. Only Nigeria was able to satisfy this criterion consistently during the period of analysis. Ghana and Sierra Leone slipped on this criterion once, while The Gambia, Liberia and Guinea at some points in time recorded two, five and seven slippages in financing months of imports for the countries. With improved external conditions and policy measures implemented by the respective countries, convergence on this criterion should be expected in the short- to medium-term.

**Overall Performance on the Primary Criteria**

On the whole, Member States’ compliance with the primary macroeconomic convergence criteria in the past ten years had been a little bit challenging. The analysis reveal that none of the countries met the four benchmark criteria consistently (table 3). Compliance with central bank financing of fiscal deficit and gross external reserves (months of imports cover) was relatively better than inflation and fiscal deficit, which posed considerable challenge to member countries during the period of analysis.

**Table 3: Number of Primary Criteria(um) met by Country**

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<tbody>
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<td>4</td>
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<td>2</td>
<td>1</td>
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<tr>
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<td>2</td>
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<td>2</td>
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<tr>
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<td>3</td>
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<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
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<td>3</td>
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<td>1</td>
</tr>
</tbody>
</table>

Source: WAMI convergence reports (various years)


**Exchange Rate Variation**

The exchange rate variability criterion stipulates that the variation in exchange rate of a country’s local currency relative to the US dollar should be in the range of ±10.0 per cent. During the period 2010-2017, there were only a few times that member countries were able to satisfy this criterion (table 4). It was difficult for member countries to meet this benchmark criterion consistently given the unfavourable terms of trade, macroeconomic imbalances and adverse external shocks such as the global financial crisis (2007-2009) and more recently the downturn in global economic activities (2015-2016).

*Table 4: Status of Compliance with Secondary Convergence Criteria*

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Exchange rate variation (Target=±10)

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<td>11.2</td>
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<td>45.1</td>
<td>53.9</td>
<td>54.4</td>
</tr>
</tbody>
</table>

Public debt/GDP ratio (Target=≤70%)

Source: WAMI convergence reports (various years)

**Public Debt/GDP ratio**

The public debt criterion requires that total public debt, consisting of external and domestic debt, should be less than 70.0 percent of GDP. This is the most satisfied
criterion amongst the elements of the secondary convergence criteria. All member countries consistently met this criterion with the exception of The Gambia and Ghana, which experienced slippages in the later part of the review period. The importance of this criterion is underscored by the fact that public debt is a burden on government’s fiscal operations, as the repayment burden of both interest and principal can stifle resources to stimulate future economic growth and development. For the envisaged monetary union to succeed, achieving fiscal discipline is germane, as loose fiscal stance of member countries can be problematic and create serious political disagreements, thereby undermining other key macroeconomic convergence requirements for a functional union, especially price stability. It becomes pertinent that member countries achieve fiscal convergence before entering a monetary union.

**Overall Performance on the Secondary Criteria**
In general, Member States’ compliance with the secondary macroeconomic criteria was mixed in the period of analysis (table 5). Member States were unable to consistently meet both benchmark criteria for more than 4 years. The performance was however better on the stock of public debt to GDP than the exchange rate variability criterion.

**Table 5: Number of Secondary Criteria(um) met by Country**

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<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: WAMI convergence reports (various years)
Real Convergence

Characteristics of the WAMZ

Member States of the WAMZ are relatively heterogeneous in size, especially when considered in terms of population and aggregate output. The Zone covers a total land area of 1.603 million square kilometers, with a total combined population of 246.8 million (table 6) in 2017, representing about 70.0 percent and 20.0 percent of the population of ECOWAS and Africa, respectively. The population under 14 years constitutes 40.8 percent of the total population. The Zone has a population density of 154 people per square kilometer. Three Member States (Guinea, Liberia and Sierra Leone) are contiguously located as they share national borders, while the other three (The Gambia, Ghana and Nigeria) are not. The GDP of the WAMZ in 2017 in nominal terms was US$440.78 billion, representing 79.3 percent and 19.9 percent of ECOWAS and Africa, respectively, while the average per capita GDP for the Zone was US$1,786.0.

The WAMZ is best described as a group of small open economies and a lower middle-income level group, accounting for less than one percent of the global economy. Member countries differ in resource endowments and are highly dependent on primary exports. This makes the Zone susceptible to shocks emanating from developments in global economic activities, which has implications on its integration agenda. Global developments in economic activities have a strong bearing on the level of inflation among member countries, which may consequently affect the conduct of monetary policy in the Zone.
Table 6: WAMZ Member Countries Key Indicators (2017)

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>The Gambia</td>
<td>2.1</td>
<td>37.4</td>
<td>10.4</td>
<td>991.2</td>
<td>2.8</td>
<td>430.0</td>
</tr>
<tr>
<td>Ghana</td>
<td>28.8</td>
<td>38.0</td>
<td>235.5</td>
<td>47,268.8</td>
<td>7.2</td>
<td>1,390.0</td>
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<tr>
<td>Guinea</td>
<td>12.7</td>
<td>41.5</td>
<td>245.9</td>
<td>10,826.0</td>
<td>4.5</td>
<td>720.0</td>
</tr>
<tr>
<td>Liberia</td>
<td>4.7</td>
<td>43.8</td>
<td>111.4</td>
<td>2,115.0</td>
<td>4.3</td>
<td>370.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>190.9</td>
<td>42.5</td>
<td>923.8</td>
<td>375,769.9</td>
<td>3.7</td>
<td>2,450.0</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>7.6</td>
<td>41.8</td>
<td>71.7</td>
<td>3,814.7</td>
<td>5.3</td>
<td>480.0</td>
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</tbody>
</table>


Table 6 presents the key features of the WAMZ member countries. Nigeria is the largest economy in the WAMZ in terms of population and nominal GDP, accounting for around 77.4 per cent of the population and 80.4 per cent of GDP in 2017. Ghana is the second largest country with 11.7 per cent and 10.7 per cent of the Zone’s population and GDP, respectively. The smallest economy is The Gambia, which accounts for 0.9 and 0.2 per cent of the Zone’s share of population and GDP, respectively.

Figure 1: Per Capita Income and Population Growth in the WAMZ
There is a wide disparity in per capita income among member countries of the WAMZ, although population growth tends to hover around the same pace as depicted in figure 1. In terms of income per capita, Nigeria has the highest with US$2,450.0, followed by Ghana with US$1,390.0 in 2016. Liberia has the lowest per capita income of US$370.0. In terms of population growth, Guinea has the fastest growth of 2.62 per cent, followed by Liberia and Nigeria with 2.44 per cent, and The Gambia has the lowest population growth in the WAMZ with 2.11 per cent. The Zone has a burgeoning youth population of below 14 years of age that constitutes 40.5 per cent of the region’s total population, highlighting the potential labour force or supply of the region. Harnessing the potential of this growing youth population is a key challenge for the Zone in terms of the requirements for massive investments in education and other social infrastructure in the face of scarce fiscal resources.

**Figure 2: GDP Growth and Per Capita in the WAMZ**
Figure 2 shows the relationship between per capita income and average growth rate of the WAMZ in the period 2010-2017. There is no real convergence among the member countries, as there was no clear evidence of co-movement between per capita income levels and growth. There is divergence between member countries with higher and lower per capita income and growth. The divergence can be mainly attributed to structural weaknesses and supply-side constraints encountered by member countries. Moreover, output growth in member countries have not been inclusive and therefore did not translate to significant improvement in the overall wellbeing of the populace.

To further buttress the reasons for the divergence of member countries towards regional integration, we employ the World Bank Doing Business Indicators (2018) and rank countries using ten key indicators (table 7). Ghana was the best performer, followed by Nigeria and The Gambia. Guinea, Sierra Leone and Liberia were the least performers. The major contributory factors to the divergence were electricity supply, trade across the borders, registration of property and approval of construction permits. The converging factors were access to credit, business startups, protection of minority investors and enforcement of contracts. Comparing the WAMZ Member States with the ECOWAS and Sub Saharan Africa (SSA), the region’s performance deteriorated in terms of doing business. Ghana was the only WAMZ member country in the top 20 in SSA and first in ECOWAS. Nigeria and The Gambia were among the top 30 in SSA and top 10 in ECOWAS.
Table 7: Doing Business Indicators, 2018 (WAMZ)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>The Gambia</th>
<th>Ghana</th>
<th>Guinea</th>
<th>Liberia</th>
<th>Nigeria</th>
<th>Sierra Leone</th>
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</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>171</td>
<td>110</td>
<td>125</td>
<td>54</td>
<td>130</td>
<td>83</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>118</td>
<td>131</td>
<td>75</td>
<td>184</td>
<td>147</td>
<td>182</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>156</td>
<td>136</td>
<td>158</td>
<td>176</td>
<td>172</td>
<td>178</td>
</tr>
<tr>
<td>Registering Property</td>
<td>129</td>
<td>119</td>
<td>143</td>
<td>183</td>
<td>179</td>
<td>165</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>122</td>
<td>55</td>
<td>142</td>
<td>105</td>
<td>6</td>
<td>159</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>164</td>
<td>96</td>
<td>146</td>
<td>177</td>
<td>33</td>
<td>81</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>169</td>
<td>116</td>
<td>182</td>
<td>69</td>
<td>171</td>
<td>85</td>
</tr>
<tr>
<td>Trading across Borders</td>
<td>105</td>
<td>158</td>
<td>165</td>
<td>177</td>
<td>183</td>
<td>162</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>107</td>
<td>116</td>
<td>117</td>
<td>174</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>130</td>
<td>158</td>
<td>111</td>
<td>106</td>
<td>145</td>
<td>159</td>
</tr>
<tr>
<td>Ease of Doing Business Rank (Overall)</td>
<td>146</td>
<td>120</td>
<td>153</td>
<td>172</td>
<td>145</td>
<td>160</td>
</tr>
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</table>


Structure of production

The structure of production of the WAMZ Member States has shown some similarities as it evolved over time from primary sector (agriculture) dominated to tertiary (services) sector dominated (figure 3). The tertiary sector constitutes more than 50.0 per cent of the GDP in the WAMZ member countries, except in Sierra Leone where the primary (agriculture) sector accounts for 51.0 per cent. In the Gambia, the tertiary sector (services) constitutes the largest sector of the GDP with a share of 65.4 per cent, while the secondary (industrial) and primary (agriculture) account for 15.2 and 19.5 per cent, respectively. In Ghana, the composition of the sectors are as follows: tertiary (50.9 per cent); secondary (26.5 per cent) and primary (22.5 per cent). In Guinea, the tertiary sector constitutes 45.9 per cent of output, while the secondary and primary sectors account for 35.6 and 18.5 per cent, respectively. In Liberia, the tertiary sector accounts for 47.5 per cent, while the secondary and primary sectors constitute 16.7 and 35.8 per cent, respectively. In Nigeria, the tertiary sector constitutes 52.9 percent of GDP, while the share of primary and secondary sectors are 25.1
and 22.3 per cent, respectively. Sierra Leone bucks the trend as the primary sector dominates output accounting for 51.0 per cent of the GDP, while the secondary and tertiary sectors constitute 11.1 and 37.9 per cent, respectively. The current production structure across the WAMZ member countries reflects largely, the level of economic development, the size of the economy and structural constraints.

*Figure 3: Sectoral Composition of GDP in the WAMZ (2017)*

4.1.2 Monetary Policy Framework and Statistical Harmonization

*Monetary Policy Framework of WAMZ Central Banks*

Monetary policy plays a significant role in economic development. It is an important tool for fostering macroeconomic stability, particularly in stemming inflation. In the WAMZ, like in many developing and developed countries, the primary mission of monetary authorities is to ensure price stability and contribute to economic growth. In addition, central banks have been
assigned the role of financial system stability given the strong connection between financial sector and the real sector and its impact on macroeconomic stability.

The primary mandate for all the central banks in the Zone is price stability through the use of market-based instruments, although the framework varies among member countries. Four (4) of the central banks, namely Central Bank of The Gambia (CBG), Central Bank of the Republic Guinea (BCRG), Central Bank of Nigeria (CBN), and Bank of Sierra Leone (BSL) adopt monetary targeting framework, while inflation targeting and exchange rate constitute the targets for the Bank of Ghana (BOG) and Central Bank of Liberia (CBL), respectively. Monetary aggregate targeting central banks like the CBG, the BCRG, the CBN and the BSL use reserve money (RM) as their operational targets in the policy framework, and also use a policy rate to signal the policy stance. In view of this, market instruments such as OMO and or standing deposit and lending facilities, which ensures that the policy rate aligns with the short-term interest rates are employed. Foreign exchange interventions are also conducted to manage both foreign exchange and market liquidity along the desired path. In the framework of the BOG, the only inflation targeting central bank in the WAMZ, the policy rate is used as the operating target. The CBL is the only WAMZ central bank which operates exchange rate targeting or uses exchange rate as a nominal anchor or intermediate target of monetary policy. In addition, CBL’s monetary policy is conducted in dual currency environment, as Liberia is partially dollarized. The main tool for monetary and exchange rate management is regular foreign exchange intervention through a monthly auction. CBL also
conducts Open Market Operations and set reserve requirements.

In fact, the phenomenon of dollarization concerns not only Liberia, as other Member States represent *de facto* dollarized economies at varying degrees. The high level of inflation (which has been in double digit on the average in all member countries except the Gambia) and the continuous depreciation of local currency combined with the capital and financial account liberalization in the 1990s, constituted some major factors linked to the observed dollarization phenomenon in the Zone. As a result, the share of foreign currencies, particularly US dollar, in total bank deposits in the Zone remains high (around 30 percent in average) indicating a significant role played by foreign currencies as a medium of exchange and store of value. This has some economic and financial implications, such as banks’ balance sheets mismatch that require either monetary authorities’ interventions or currency and banks crises that require the intervention of the regulatory authorities. Even in the absence of currency crises, dollarization may obscure the equilibrium value of the real exchange rate and undermine the efficient allocation of resources between the traded and non-traded goods sectors, and ultimately weaken the effectiveness of monetary policy of Member States. Consequently, there is need for monetary authorities of the WAMZ to continue efforts at preserving the real value of local currencies in the Zone to ensure macroeconomic stability.

*Statistical harmonization*

Established under the Abuja Action Plan, the WAMZ Statistical harmonization program constitute a key activity in the context of establishing monetary union in
the Zone. The objective is to ensure that Member States’ macroeconomic data are accurate, reliable and comparable over time through the adoption of a common platform and classification systems. As such, compilation and reporting of data from member countries are undertaken in conformity with the regional methodologies, as well as international best practices such as the System of National Accounts (SNA) 1993 and 2008, the ECOWAS Classification of Individual Consumption by Purpose (COICOP), the IMF Government Finance Statistics Manual (GFS 2001), the Balance of Payments Manual (BPM6) and the Monetary and Financial Statistics Manual (MFSM).

On real sector statistics, member countries are required to compile their national accounts on the basis of the System of National Accounts (SNA) 1993 and 2008 methodology and the uniform nomenclature of International Standard Industrial Classification (ISIC) revised. These methodologies have the advantage of being regularly updated through regular surveys that captures new sectoral establishment and enterprise registration. The methodologies integrate unrecorded and informal sector activity to ensure improvements in transactions coverage, timeliness of reporting and quality of data. Nigeria and Ghana have fully migrated to SNA 2008 to produce the GDP series in annual and quarterly series, while The Gambia and Liberia are partially implementing SNA 2008. The Gambia is considering to fully migrate to SNA 2008 in 2018, which coincides with rebasing the GDP from 2004 to 2013. Guinea and Sierra Leone are implementing the action plan and training towards migrating to SNA 2008. As regards the harmonization of consumer price index (CPI), member countries compile the CPI in line with the ECOWAS methodological guide based on the
Classification of Individual Consumption by Purpose (COICO12 P functions). This requires a monthly frequency, a recent base year (no more than 10 years old) and an extension of the CPI coverage to national territory and production of urban, rural and national indices. Three countries have rebased their CPI (Ghana 2012, Nigeria 2010, and Sierra Leone 2008) with national households and urban-rural breakdown. For the remaining countries, coverage is national with no breakdown and a relatively old base year (Liberia 2005, The Gambia 2004, and Guinea 2002). The main challenges of statistical harmonization on the real sector for the member countries, except Ghana and Nigeria, concerns the delay in producing quarterly GDP series, changing the base year of the CPI and generating the rural-urban indices of the CPI.

On government fiscal operations, member countries have implemented the IMF Government Finance Statistics (GFS 2001) Manual for compiling and reporting government budgetary operations such as government expenditure and revenue, as well as fiscal balance and their financing modalities. The use of the Integrated Financial Management Information Systems (IFMIS), which is an automated system used for public financial management and for the interlinking of planning, budgeting, expenditure management and control, accounting, auditing and reporting, has significantly enhanced the quality and timeliness of fiscal data in the Zone. The minimum comparability standard in the Zone is to cover central government fiscal operations, although some countries also cover subnational government operations. The compilation and reporting of fiscal operations has significantly improved within the Zone, but challenges persist in the
complete migration to GFS 2001 for some member countries.

On Monetary and Financial Statistics, all member countries have adopted the Monetary and Finance Statistics Manual’s (MFSM) definition and classification of financial corporations. The harmonization necessitates the compilation and reporting of the analytical account of the central bank, consolidated balance sheet of commercial banks and finally the monetary survey of the country, which consolidates the entire financial and monetary sector. Monetary and financial statistics are compiled and disseminated on a monthly basis. All WAMZ member countries have complied with this requirement and produce their financial and monetary statistics according to the MFSM, although challenges exist in some countries such as Guinea, with respect to the collection of financial data from some microfinance institutions.

On Balance of Payments statistics, countries are required to collect and record external sector statistics according to the Balance of Payments Manual (BPM6). However, lack of reliable statistics, particularly in the trade sector, as well as poor coordination among agencies responsible for the implementation, remain a challenge for member countries. The performance of member countries on the adoption of BPM6 is mixed. Half of the countries in the Zone (Ghana, Nigeria and Sierra Leone) have fully adopted the BPM6 in the compilation of the balance of payments, while others (The Gambia, Guinea, and Liberia) are still undergoing the preparations towards the adoption of BPM6.
4.1.3 Financial integration

Financial integration is an important pillar of any regional integration process, especially for a monetary union. Regional financial integration can be defined as a market driven and/or institutionalized process with the ultimate goal of broadening and deepening financial linkages within a region (Wakeman-Linn and Wagh, 2008). The financial sector should be adequately prepared to promote financial inclusion and to sustain a changeover to a new currency. The sector itself is at the heart of market economy, playing a major role in intermediating savings and investments. This can be facilitated by eliminating barriers to cross-border investments and differential treatment of foreign investors. The depth and quality of an integrated financial market can also enhance a broad range of choices for savings and investments, thereby facilitating economic growth within the currency area. One of the alluring features of financial integration is the capacity to adjust to asymmetric shocks, in view of the fact that an integrated market provides a risk sharing mechanism occasioned by a negative shock (De Grauwe, 2000). Negative shocks in one area of the Zone could be mitigated by a compensating variation in the other parts.

Financial integration remains an important element of the WAMZ programme because it is essential for an efficient and effective implementation of a common monetary policy, and will facilitate timely transmission of the desired impact of such policy across the Zone. Given the divergence in the state of financial sector development in member countries, it is appropriate to ensure that the financial sector is adequately prepared to guarantee financial inclusiveness that would
facilitate a seamless changeover to the single currency when introduced.

Financial systems of Member States are generally small relative to the size of their Gross Domestic Product (GDP) and dominated by the banking sector, where cross-border banking transactions are hampered by fragmented regulatory regimes. Banking markets in the Zone are still expanding with limited use of single instruments such as credit cards to access banking products across the border. There are also low level of access to formal financial services, limited development and integration of capital markets, non interlinkage of the payments system, underdeveloped bond markets in most member countries and insurance markets that are largely localized within national boundaries.

As noted by Oshikoya, *etal* (2010), the WAMZ programme for financial integration encompasses: full capital account liberalization; cross-listing of stocks; regional currency convertibility/quoting and trading in WAMZ currencies; harmonization of banking supervision practices; and cross-border payments systems. The WAMZ programme is consistent with a certain minimum set of pre-requisites associated with functioning regional markets.

**The Payments System Development Project**

The Payments System Development Project (PSDP) was launched in 2008 with a grant from the African Development Bank (AfDB). The objective of the PSDP is to develop, harmonize and integrate the WAMZ payments system. The project was earmarked to upgrade the payments system infrastructure of The Gambia, Guinea, Liberia, and Sierra Leone, in order to bring them at par with that of Ghana and Nigeria. The
The principal aim is to build common standards and platform in the Zone. The implementation of the project is expected to facilitate cross-border trade, improve the efficiency of financial intermediation, liquidity management, and deepening of the financial sector in the Zone. In addition, the payments system will facilitate credit transfers among member countries and reduce cash intensity in the economy; provide the WAMZ member countries with reliable and secured shared network to exchange retail and wholesale payments electronically; reduce the overall demand of bank notes and the cost of printing and processing the WAMZ single currency – Eco; encourage the use of the banking system for payments; enhance monetary policy implementation/banking system liquidity management; and create Single Payment Area for the Zone.

The WAMZ Payments System Roadmap continues to serve as the key strategic plan for the implementation of an effective and efficient payments systems development in the Zone. The main components of the WAMZ payments system project are: Real Time Gross Settlement (RTGS) system; Automated Clearing House (ACH) and Automated Cheque Processing (ACP) system; Infrastructure Upgrade; Scriptless Securities and Settlement System (SSSS); and Core Banking Application (CBA). WAMI has made significant progress towards building a regional payments system platform to support the integration process. Common standards have been established for various payments system components, including: WAMZ Payments System Development Framework; Standards for uniform RTGS and SSSS; Standards for uniform ACH/ACP systems; Common Cheque Standards; Uniform Payments System Statute; and Common e-banking guidelines.
The project was successfully completed in 2016 when the RTGS in all the beneficiary countries went live. The successful completion of RTGS in the various countries has succeeded in enhancing payments transactions within member countries, but the issue of cross-border payments still remain a significant challenge. This invariably makes member countries to depend on correspondent banking relationship with banks outside the region, necessitating the use of letter of credit with high operational cost and heavy burden on the Zone’s foreign exchange reserves. This challenge, therefore, necessitates the need for the inter-linkage of the various RTGS in the Zone, particularly by interlinking the payments system infrastructure of The Gambia, Guinea, Liberia and Sierra Leone to those of Ghana and Nigeria.

Indeed, a major development in the payment landscape is the preference for electronic payments and settlement over the traditional cheques, as more people use ATM, POS and mobile money for transactions. In The Gambia, the National Payments Switch currently has an interface with the RTGS platform and performs daily settlements. Services provided by the National Switch include POS retail payments, mobile based payments, internet/web-based payment, person-to-person (P2P) transfers, and international (in-bound) cash remittance. The Gambia’s economy is predominantly cash-based, although there is a gradual shift to electronic payments option. There have been new entrants in the electronic payments market with four commercial banks introducing ATM services, which has increased the number of debit cards issued. Additionally, two mobile telecom operators have launched mobile money services across the country. Twelve (12) commercial banks provide 99 ATM
terminals to the public. The volume of ATM transactions increased significantly from 20,368 in 2015 to 35,983 in 2017 (figure 5). The functioning of the RTGS contributed to the 13.2 percent decline in the volume of cleared cheques, from 179,546 in 2015 to 155,800 in 2017 (figure 4).

**Figure 4: Volume of Cheques Cleared in The Gambia**

![Volume of Cheques Cleared in The Gambia](source: Central Bank of The Gambia)

**Figure 5: Volume of ATM Transactions in The Gambia**

![Volume of ATM Transactions in The Gambia](source: Central Bank of The Gambia)

In Ghana, the payments system has equally witnessed significant development as transactions on the Ghana Interbank Settlement System (GhIPSS) increased in both volume and value, following the linking of banks’ Automated Teller Machines (ATMs) to the national switch (Gh-link). A total of thirty-six (36) member
institutions were connected to the Gh-link in 2016. Another payments platform in Ghana is the E-zwich, which is an interoperable biometric smart card payments system, that offers a suite of electronic payment and banking services accessible from a Point of Sales (POS) terminal or ATM. These services include payment at merchants’ point of sale, withdrawal of cash, deposit onto card and transfer of funds. The E-zwich system also facilitates the distribution of payments such as loans, salaries, wages and pensions.

The mobile money environment in Ghana sustained its growth with the issuance of the Electronic-money Issuers and Agents Guidelines in July 2015 to replace the Branchless Banking Guidelines (2008). There are four (4) Mobile Network Operators offering mobile money services. The number of registered mobile money customers grew by 50.42 percent to 19,735,098 in 2016 from 13,120,367 in 2015. The volume of transaction on the RTGS increased by 5.0 percent from 6,962,297 in 2015 to 7,309,406 in 2017 (figure 6). The volume of mobile money transactions increased by 2,946 percent from 18.0 million in 2012 to 500.0 million in 2016 (figure 7). The deployment of ATMs in Ghana increased by 111.4 per cent to 1,928 in 2016 from 912 in 2015. Similarly, the number of POS terminals rose by 34.2 per cent to 6,501 in 2016 from 4,841 in 2015.
In Guinea, the RTGS and Scriptless Securities and Settlement system (SSSS) went live in June 2016, and a fail over test was performed to test the robustness of the disaster recovery system. Transactions issued in USD through RTGS rose from a daily amount of USD 1.6 million to USD 2.10 million in 2016, representing an increase of 31.25 percent. The interconnectivity between the RTGS and the ACP/ACH, which is the main processing mode for cheques and transfers in Guinea, was tested and validated. Figures 8 and 9 show an upward trend in volume and value of cheques cleared by the RTGS from 2014 to 2017. The volume of cheques decreased by 26.4 percent to 161,085 in 2017 from...
218,853 in 2015 due largely to the emergence of alternative payments channel mainly ATM, POS, and internet banking. The value of cheques cleared increased by 126 percent to GNF 20,857 billion in 2016 from GNF 9,220 billion in 2014. Other forms of payments are still underdeveloped as cheques are still the predominant means for settlement.

**Figure 8: Volume of Cheques Cleared in Guinea**

![Figure 8: Volume of Cheques Cleared in Guinea](image)

*Source: Central Bank of the Republic of Guinea*

**Figure 9: Value of Cheques Cleared in Guinea (GNF billion)**

![Figure 9: Value of Cheques Cleared in Guinea (GNF billion)](image)

*Source: Central Bank of the Republic of Guinea*

With respect to Liberia, all the components of the payments system development project went life in 2016. The infrastructural upgrade was completed with a successful fail over test at both the Main and Disaster Recovery sites. In terms of other developments in the
payments system, mobile money services are mainly provided by two telecommunication companies. There are 137 POS terminals provided by 2 banks. The volume of cheques cleared declined by 29.6 percent to 146,599 in 2017 from 208,172 in 2015, on account of growing confidence in the use of electronic means of payments (figure 10). There are 105 ATM terminals operated by five (5) banks. The volume of ATM transactions increased by 11.8 percent to 1,039,195 in 2017 from 929,287 in 2015 (figure 11).

Figure 10: Volume of Cheques Cleared in Liberia

![Graph showing the volume of cheques cleared from 2015 to 2017.](image)

Source: Central Bank of Liberia

Figure 11: Volume of ATM Transactions in Liberia

![Graph showing the volume of ATM transactions from 2015 to 2017.](image)

Source: Central Bank of Liberia

Nigeria’s payments system development project is guided by the payments system vision (PSV 2020). The broad objective of PSV2020 is to create an electronic
payments infrastructure that is nationally utilized and internationally recognized. The implementation of the PSV2020 has been satisfactory. New guidelines have been introduced, including the guidelines on the operation of electronic payment channels and the guidelines on instant (inter-bank) electronic funds transfer services in Nigeria. These guidelines are expected to provide efficient and safe transaction in the payments system. The volume and value of payment channels such as POS, mobile payments and electronic transactions have increased significantly on account of growing public awareness and confidence as well as increased network availability in the country.

There are currently 59 licensed participants in the payments system space involved in card schemes, mobile money, payment terminals and payment solution service, among others. The implementation of the unique customer identifier scheme, Bank Verification Number (BVN) project, resulted in the registration of 25,176,419 customers in the database at end-June 2016. In addition, 35,508,282 accounts were linked to the BVN, out of 57,899,771 customer accounts. The implementation of the unique customer identifier across the WAMZ is expected to be effective, given the headline improvement in the fight against illegal financial transaction such as AML/CFT. Large value payments using cheques declined by 19.7 percent to 10,808,983 in 2017 from 13,466,461 in 2015 (figure 12). On the other hand, the volume of ATM transactions increased by 84.59 percent to 800,549,099 in 2017 from 433,695,748 in 2015 (figure 13). The increase in transactions using other payment platforms like the ATM, debit cards, POS, among others, has led to the gradual decline in large value payments using cheques.
In Sierra Leone, the PSDP provided the platform to launch the mobile money guidelines, and implement the National Switch project. Currently, seven (7) commercial banks issue smartcards and operate ATMs, while four (4) have operational POS machines with Interswitch Nigeria providing switching services for six (6) of the fourteen (14) commercial banks in the country. All the POS and ATMs are stand alone. There are 83 ATM terminals and 123 POS serving mainly the urban areas. The volume of transactions using ATM increased by 21.0 percent to 1,067,730 in 2016 from 882,267 in 2015 (figure 15). Mobile money operations were introduced to Sierra Leone in 2009 by a mobile
telecommunications company in collaboration with a commercial bank. Large value payments using the RTGS declined by 11.3 percent to 206,508 in 2017 from 232,875 in 2015 (figure 14). The decline in large value payments can be attributed to the growing desire of the public to use other platforms for payments and settlements.

**Figure 14: Volume of Cleared Cheques in Sierra Leone**

![Bar chart showing volume of cleared cheques from 2015 to 2017.](source: Bank of Sierra Leone)

**Figure 15: Volume of ATM Transactions in Sierra Leone**

![Bar chart showing volume of ATM transactions from 2015 to 2017.](source: Bank of Sierra Leone)

Following the successful implementation of a modernized national payments system, the next stage is the development of an integrated regional wholesale and retail payments and settlement system that will strengthen the efficiency of cross-border fund transfers
within the WAMZ and improve the financial sector regulatory and oversight framework.

Efforts are ongoing to connect all the RTGS of Member States through a SWIFT platform to facilitate smooth transfers and payments of funds real time, and to enhance trade among WAMZ countries. With the low level of intra-WAMZ trade, this initiative is expected to improve trade in the region. The project, named WAMZ Payments and Settlement System (WAMZPSS), is consistent with the financial integration objectives of the WAMZ.

The objective of the WAMZPSS is to inter-link the various wholesale and retail payments and settlement systems of the WAMZ, to facilitate market integration through cross-border trade and serve as a platform for quoting and trading in local currencies of member countries. The project would support, through the integrated Payments and Settlement System (PSS), the broadening and deepening of the financial sector by establishing a single market in financial services among the WAMZ member countries, with a view to providing a wide range of financial services to all at competitive prices. Specifically, the project aims to: (i) contribute to establishing an infrastructure that is sound, efficient and compatible at the regional level; (ii) assist the WAMZ to redress the weaknesses in the legal and regulatory arrangements in PSS, which are critical to achieving the effective functioning of a single common market in financial services, as well as preparing a model regional payments system Act; and (iii) provide capacity building in the area of payments and settlement system at both national and regional levels.
The inter-linkage of the RTGS of the six countries would ensure that payment obligations within the WAMZ are settled effectively, efficiently and with certainty. The linkage will provide a technological platform to accommodate existing payments system streams, and provide a common foundation for the introduction and development of additional financial products and services in the future. It will be an integral element of the overall infrastructure and technological platform required to support the WAMZ monetary union to function effectively and contribute to managing quoting and trading in the WAMZ currencies. Furthermore, the technological platform will promote financial inclusion in the Zone. The project is also expected to have a positive impact on the private sector, especially the SMEs, which would benefit from an integrated and sound regional payments and settlement system.

In summary, the proposed system will achieve the following: ease of transfer of funds within WAMZ and ultimately the larger ECOWAS; reduction of risk associated with funds transfer; facilitation of trade within the Zone; facilitation of the use of WAMZ Member States’ currencies; discourage the use of correspondent banking relationship (which are already declining), and move from T+2 to T+0 timeliness in fund transfer; and, serve as a major milestone towards achieving the expected Monetary Union.

*Capital Market Integration in West Africa*

The need to foster capital market integration came to the fore on account of larger cross-border flows, as well as the need to promote access to larger markets. In addition, financial groups such as Ecobank
Transnational Incorporated (ETI) were listed on the Ghana Stock Exchange (GSE), Nigerian Stock Exchange (NSE) and Bourse Régionale des Valeurs Mobilières (BRVM) albeit under different listing requirements. Consequently, the West African Capital Market Integration Council (WACMIC) was established in 2013 to spearhead the integration of capital markets in the region. WACMIC comprises the Heads of the Stock Exchanges in the UEMOA Zone, Cape Verde, Ghana, Nigeria and Sierra Leone. The Moroccan Casablanca Stock Exchange is an associate member, while The Gambia, Guinea and Liberia are observers. The Council harmonizes the rules and regulations for the issuance and trading of financial securities across the sub-region and manages the implementation of the processes that will facilitate the creation of an integrated capital market in West Africa. The Council also monitors and assesses the state of preparedness of the Member States in the integration process, and its activities are backed by a Charter and guided by a Technical Committee. WAMI and the Ghana Stock Exchange are the Secretariat of the council. WACMIC has adopted a three-phased approach to capital market integration as discussed below.

**Phase 1: Sponsored Access Phase**, in which a licensed foreign dealing member/broker or Sponsored Participant (SP) accesses the local market through a licensed dealing member/broker or Sponsoring Member (SM). To facilitate this process, Sponsored Access rules and related agreements are executed between the SM and the local exchange, as well as between the SM, local Exchange, and the SP, following which the local Exchange would grant approval. Thereafter, these agreements are lodged with the foreign securities exchange, as well as the
local and foreign statutory regulators and central depositories. All orders emanating from the SP would pass through the risk management system of the SM, before reaching the Exchange. This is to ensure that orders are executed speedily, while agreed transaction limits are respected. The SM is solely responsible for all risk introduced by the SP.

**Phase 2: Qualified West African Broker (QWAB) Phase**, is an improvement on the Sponsored Access, as it allows the licensed foreign dealing member/broker to access the local market directly. The conditions are however, more stringent than those of the Sponsored Access Phase, especially with respect to risk management. However, the licensed foreign dealing member/broker assumes the same status as the local counterpart in allowable areas of the market. For this Phase to become effective, listing requirements and governance structures in the participating markets would have to be harmonized, training and certification standardized, and a common passport introduced.

**Phase 3: Fully Integrated Market/West African Securities Market (WASM) Phase**, provides a common (virtual) securities market mirroring all participating exchanges. However, orders would be routed to, and settled in the market of listing through an order routing technology. Although, securities on the WASM would be quoted in US dollars, settlement would be in the local currency of the market of listing. A virtual International Central Securities Depository (ICSD) would complement WASM in securities clearing.

The Council has harmonized the rules and regulations necessary for the issuance and trading of financial securities across the sub-region and adopted all
documents for Phase 1 and 2. The documents are as follows: Sponsored Access; Qualified West African Brokers (QWAB); No Objection Letter; Dispute Resolution Framework; Supplementary Issues; Enabling Framework for Listing on the Exchange; and Depository, Trading, Clearing and Settlement Harmonization.

Currently, the phase 1 programme has been approved and implemented. Ghana and Nigeria have recorded some trade under the phase 1 arrangement (between CAL Brokers (Ghana) and United Capital Securities (Nigeria). Efforts are on-going for the transition to phase 2, which would grant brokers direct access to markets within the Zone.

To deepen the integration of capital market in the Zone, the Securities and Exchange Commissions (SECs) in Member States, withdrew from WACMIC to form the West African Securities Regulators Association (WASRA) in 2016. It was agreed that WASRA should be saddled with the responsibilities of formulating and designing policies for the integration of capital markets in the sub-region, while WACMIC will spearhead the implementation process of the integration. Currently, WASRA and WACMIC are working on a detailed framework to guide their interactions.

Although, significant progress has been recorded in the integration of capital markets in West Africa, the pace of capital market integration has been slowed down by several challenges. First, cross-border settlement of securities transaction remains problematic in the absence of a single currency or settlement bank. The Sponsored Access framework provides for trades to be settled in the local currency of the Sponsoring Member,
underscoring the need for an anchor currency, given the limited convertibility of currencies of Member States. Second, the foreign exchange regulations in some Member States prohibit citizens from investing in foreign securities. Also, huge funding may be required to implement Phase 3 - the Fully Integrated Market/West African Securities Market (WASM). Again, there exists uneven capital market development among member states of ECOWAS. There is also low awareness at various levels of stakeholders such as policy makers and market operators. Furthermore, there are few number of trades due to lack of interest by market operators, coupled with the high cost of assessing the markets in the region. Besides, the lack of a common platform for information sharing and a common forum for interaction between WASRA and WACMIC has weakened effective communication and coordination between the two regional associations.

In light of the challenges confronting capital market development in West Africa, the medium- to long-term activities of WACMIC and WASRA should center on the following:

i. WASRA’s approval of capital market integration programmes;

ii. Creating sensitization on capital market integration programmes;

iii. Provision of adequate funding for capital market integration in the Zone;

iv. Development of capital markets in The Gambia, Guinea, Liberia and Sierra Leone;

v. Selection of a settlement bank as the Zone seeks to integrate the payments systems infrastructure of the sub-region to address transaction settlement challenges;

vi. 
vii. Encouraging deepening of the capital market;

viii. Need for a downward review of listing and transaction costs in the sub-region in order to create an enabling environment to attract more listings; and

ix. Need for a platform for continuous interaction between WACMIC and WASRA to deepen capital markets in the region.

Banking Sector Integration in the WAMZ

The banking sector accounts for over 70.0 per cent of total financial sector assets in the WAMZ. Non-bank financial institutions such as equities and bonds markets, microfinance institutions, insurance companies, finance houses and collective investment schemes among others, have remained small players in the financial sector. Moreover, banking in the Zone has largely followed the traditional model of bank branch expansion and low number of automated teller machines (ATMs), which are accessible to a fraction of the population who reside around the urban centers. In addition, infrastructure bottlenecks such as weak information communication technology (ICT) across the sub-region inhibits financial innovation and access to finance.

The financial landscape in the WAMZ witnessed a rise in cross-border banking activities precipitated by the growth of the banking industry in Nigeria. The increase in cross-border banking activities gave rise to the need for close supervision of banks, against the backdrop of the 2007/08 global financial crises and the necessity to prevent contagion. Consequently, in 2010, Central Banks in the WAMZ established the College of Supervisors of the West African Monetary Zone
(CSWAMZ) with the purpose of assisting the regulators in developing a clear understanding of the risk profile and vulnerabilities of national and cross-border banks in the WAMZ. It was also established to provide a common platform for addressing key topics relevant to the supervision of the banking system in the Zone, as well as for cooperation and exchange of relevant information. The Charter establishing the College was ratified by the Committee of Governors of the WAMZ on 31 July 2010.

The objectives of the College of Supervisors include: facilitation of exchange of information, views and assessments in order to allow for a more efficient and effective consolidated and solo supervision and timely action; assisting members to develop a better understanding of a cross border bank’s risk profile and vulnerabilities in order to facilitate risk based supervision at both group and solo basis; providing a framework for addressing key issues including emerging risks, early warning signals and crisis management; enhancing the capacity of supervisors to develop a common understanding of the risk profile of a banking or financial group as the starting point for risk based supervision at both group and solo levels; coordination of supervisory review and risk assessment, establishing supervisory plans, arranging division of tasks and joint onsite visits; and, coordination of decisions taken by individual authorities, to contribute to a consistent implementation of WAMZ decisions. Others are: contributing to the convergence of Member States regulation and supervisory practices for banks and banking groups in the WAMZ; facilitating the implementation and operationalization of the memorandum of understanding among various supervisory authorities within the WAMZ; reduce
regulatory duplication and inconsistency by improving subsequent bilateral dialogue between regulators, increasing levels of trust and enhancing cooperation of supervisors; and promote a coherent approach across the WAMZ to the consistent and effective implementation of macro-prudential and micro-prudential policy tools.

Since its formation, the CSWAMZ has played significant role in ensuring adherence by Member States to international regulatory and supervisory standards, as well as the automation of banking supervision processes in the Zone. The College has remained committed to providing solid regulatory and supervisory oversight aimed at maintaining and enhancing financial system stability in the WAMZ. Four (4) meetings are held annually, which provide avenue for discussion of issues affecting the banking industry in the Zone. Major issues discussed are: joint examination of Nigerian bank subsidiaries in the sub-region; sound corporate governance and credit underwriting standards in the banking sector, especially in light of high non-performing loans prevalent in most Member States; the development of robust crises resolution mechanisms and reinforcement of measures for combating money laundering and financing terrorism; and, emerging issues on cyber security. Others include the resolution of problem banks, the implementation of Risk Based Supervision; application of the Basel accords, and International Financial Reporting Standards (IFRS) and IFRS 9; implementation of automated banking supervision processes and capacity building for bank examiners, among others.

Major achievements of the College during the period included: the commencement of the implementation of
Basel II and certain aspects of Basel III by some banks in the sub-region; transition to IFRS9 by Ghana and Nigeria; Zone-wide strengthening of AML/CFT regimes in line with international standards; significant efforts at ensuring a safe and stable financial system in the Zone through joint supervision of cross border banks; and effective cooperation and exchange of information and ideas. Others include development of the Model Banking Act for Banks and Non-Bank Financial Institutions in the WAMZ, review of the CSWAMZ charter and assessments of compliance with the Basel Core Principles (BCPs). In strengthening cross border banking supervision in the Zone, Member States have since inception, sustained the joint examination exercises with the CBN. Over forty (40) joint examination exercises of Nigerian banks have been carried out since 2012.

Main supervisory concerns of the College were: lingering high level of non-performing loans, which threatens financial system stability in the Zone; decline in correspondent banking relationships in the WAMZ, which negatively impacts the services of affected banks, particularly, their ability to carry out international wire transfers; regulatory challenges stemming from innovative technology, which include potential threat of cyber-security; absence of deposit insurance schemes and bank resolution frameworks in most jurisdictions in the Zone; non-existence of a unique identifier in most countries of the Zone, to help with the proper profiling of banks’ customers; and, the predominance of cash transactions.
Insurance Market Integration in West Africa

The integration of the insurance markets in West Africa is a new task given to WAMI in the reviewed 2020 road map for attainment of the single currency objective of ECOWAS. WAMI has developed a work plan to realize the objective of integrating the business of insurance in the sub-region. This include plans to carry out a survey of Insurance legislations in West African countries and prepare a draft harmonized legislation for ECOWAS. In the sub-region, Ghana and Nigeria boasts of a relatively well-developed insurance market with institutions that offer regulatory oversights of firms operating in the insurance sector.

4.1.4 Trade

Intra-regional trade focuses on economic exchange among countries of the same region or economic zone. It is expected to increase the level of trade among member countries reduce inflation and minimize the impact of tariff barriers associated with foreign markets. It also lowers tariff and non-tariff trade barriers, enhance consumer choice in the regional countries, while producers can benefit from increased market size, which would facilitate innovation, greater competition and reduced costs.

One of the major reasons for endorsing a monetary union is to promote trade among participating member countries, eradicate uncertainty surrounding the exchange rate and its associated costs. Trade integration fosters real convergence and reduces cross-border price differentials. Trading in a single currency helps to reduce the macroeconomic risk factors faced by traders and investors in member countries.
Trade integration is an important pillar in the WAMZ monetary union, necessitating its inclusion in the Abuja Action Plan to facilitate the introduction of the WAMZ single currency. Recognizing the importance of effective trade integration for the WAMZ single economic space, the Banjul Declaration of 2005 expanded the mandate of the WAMZ to include the promotion of good trade governance, monitoring and reporting on Member States’ compliance with ECOWAS trade integration obligations, as well as providing analytical advisory services on trade matters, among others. The WAMZ Authorities have noted the significant contribution trade could make to economic growth, especially the manufacturing and services sectors, as well as the positive multiplier effect it can have on the socio-economic development of the Zone. The WAMZ common market is envisaged to remove the barriers to intra-WAMZ and ultimately ECOWAS trade flows.

WAMZ Trade Profile and Trade Openness

Despite the enormous potentials within the WAMZ and the opportunities the ECOWAS free trade area offers, intra-regional trade among the WAMZ Member States remain unimpressive. The degree of intra-WAMZ trade relative to the rest of the world remains low, as it averaged 1.33 percent in the period 2009-2017. Also, the degree of intra-ECOWAS trade relative to the rest of the world was below 16 percent (table 8). Intra-WAMZ trade intensity averaged 0.32 per cent in the period under review.
Table 8: Degree of Intra-Regional Trade

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<tr>
<td>Intra-WAMZ Trade</td>
<td>0.62</td>
<td>0.98</td>
<td>1.74</td>
<td>1.59</td>
<td>1.34</td>
<td>0.94</td>
<td>1.15</td>
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<td>WAMZ Trade Intensity</td>
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<td>0.25</td>
<td>0.4</td>
<td>0.35</td>
<td>0.25</td>
<td>0.18</td>
<td>0.27</td>
<td>0.72</td>
<td>0.32</td>
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<tr>
<td>Intra-ECOWAS Trade</td>
<td>8.5</td>
<td>7.26</td>
<td>9.23</td>
<td>9.23</td>
<td>12.39</td>
<td>11.37</td>
<td>13.23</td>
<td>15.7</td>
<td>15.36</td>
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Source: WAMZ Trade Integration Report (various issues)

Table 8 shows that in 2017, the level of intra-WAMZ trade declined to US$1.3 billion (0.3 percent of GDP), from US$2.8 billion (0.71 percent of GDP) in 2016. Correspondingly, the degree of intra-WAMZ trade relative to the rest of the world fell to 1.1 percent in 2017, from 2.6 percent in 2016. The WAMZ Member States’ trade with ECOWAS rose to US$7.4 billion (1.7 percent of GDP), from US$5.9 billion (1.5 percent of GDP) in 2016. Intra-ECOWAS trade relative to the rest of the world marginally fell to 15.4 percent in 2017, from 15.7 percent in 2016. The low performance of trade in the Zone can be explained by a host of factors, which centers on trade and non-trade barriers caused by structural constraints, infrastructure deficiency and policy-induced impediments or institutional weaknesses. Specifically, they include: lack of product diversification and trade complementarities among member countries; low population densities and low levels of income; poor logistics and transit systems and numerous informal checkpoints along trade routes that create bottlenecks: relatively weak trade governance environment; and, low level of domestic participation in trade creation.

Furthermore, the trade profile of the Zone remained undiversified, as Member States primarily export a few raw materials and import several industrial products
and food items. Most of the goods traded within the Zone are primary commodities, light manufactured products as well as pharmaceuticals. Intra-WAMZ trade remained low due to poor documentation and large informal trade. Informal trade is dominated by food items including livestock, maize, millet and sorghum, while official trade statistics suggest that crude and refined petroleum products, cement and other construction materials are in the top-three categories of intra-regionally traded goods.

To ascertain the degree of openness to trade, we look at the importance of international trade linkages for the Zone and in the respective member countries. The degree of openness to trade is defined as the sum of exports and imports as a percentage of GDP. A higher value indicates more openness and connotes the likelihood of foreign countries having strong impact on economic variables of the home country. As shown in table 9, the WAMZ as a region continued to be highly open to trade with the rest of the world averaging 62.9 per cent of the region’s GDP in the period 2011-2017. Liberia remain the most open economy in the Zone, with an average of 97.2 per cent of GDP, while Nigeria was the least opened economy averaging 29.3 per cent of GDP.

**Table 9: Degree of Trade Openness**

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<tr>
<td>The Gambia</td>
<td>47.36</td>
<td>64.99</td>
<td>68.56</td>
<td>52.94</td>
<td>44.79</td>
<td>40.43</td>
<td>54.39</td>
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<td>Ghana</td>
<td>72.37</td>
<td>78.33</td>
<td>68.36</td>
<td>75.41</td>
<td>67.44</td>
<td>61.43</td>
<td>58.06</td>
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<td>Guinea</td>
<td>74.16</td>
<td>58.73</td>
<td>51.6</td>
<td>54.08</td>
<td>47.29</td>
<td>89.17</td>
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<tr>
<td>Liberia</td>
<td>109.79</td>
<td>89.73</td>
<td>86.88</td>
<td>148.61</td>
<td>95.12</td>
<td>69.66</td>
<td>80.42</td>
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<tr>
<td>Nigeria</td>
<td>39.91</td>
<td>34.35</td>
<td>31.41</td>
<td>33.13</td>
<td>21.87</td>
<td>22.28</td>
<td>21.93</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>72.11</td>
<td>62.16</td>
<td>75.25</td>
<td>83.29</td>
<td>57.51</td>
<td>57.44</td>
<td>48.57</td>
</tr>
<tr>
<td>WAMZ</td>
<td>69.28</td>
<td>64.72</td>
<td>63.68</td>
<td>74.58</td>
<td>55.67</td>
<td>56.74</td>
<td>55.69</td>
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Source: WAMZ Trade Integration Report (various issues)
Assessment of Compliance with ECOWAS Trade-related Protocols and Conventions

The Banjul Action Plan enjoined WAMZ member states to comply with the following trade-related protocols:

(i) ECOWAS Common Trade Policy;
(ii) The ECOWAS Trade Liberalization Scheme (ETLS);
(iii) ECOWAS Common External Tariff (CET);
(iv) Harmonization of Indirect Taxes;
(v) Automated Harmonized Customs Clearance Procedures;
(vi) Free Movement of Persons, Right to Reside and Establish;
(vii) ECOWAS Brown Card Scheme;
(viii) Convention relating to Inter-State Road Transit of Goods (ISRT);
(ix) Yamoussoukro Open Skies; and

To assess the extent of trade integration in the Zone, we shall examine the efforts of member countries and institutional arrangements put in place to support the facilitation of trade towards the creation of the WAMZ common market.

ECOWAS Common Trade Policy. Member States of the WAMZ have developed national trade policies at various stages of implementation. These national trade policies are, however, fraught with lack of synergy for trade in the region, which could be problematic to the implementation of regional trade related programmes. To harmonize national trade policies and create synergies, a regional trade policy was formulated within the context of the ECOWAS single market programme,
which is awaiting approval and adoption by member countries. It is expected that this would enhance policy coordination, implementation and deepen intra-regional trade.

The ECOWAS Trade Liberalization Scheme (ETLS). The ECOWAS Treaty (Article 3) has as one of its objectives, the establishment of a Common Market in which there will be abolished among Member States customs duties on imports and exports, and the elimination of non-tariff barriers. In 1979 the ETLS was adopted to cover agricultural goods and artisan handcrafted products but in 1990, it was extended to cover industrial goods that meet “Rules of Origin” prescribed. The ETLS is the mechanism for implementing the free trade programme of the Community. It is designed to create trade opportunities by: (i) opening new markets for goods and services; (ii) increasing investment opportunities; (iii) making trade cheaper - by eliminating all customs duties; and (iv) making trade faster - by facilitating goods transit through customs and setting common rules on technical and sanitary standards.

All Member States of the WAMZ have adopted and are implementing the ETLS. Although participation in the Scheme appeared to be improving across the Zone, limited sensitisation, cumbersome application procedures, among others, were constraining its effective implementation. Despite the challenges associated with the implementation of the Scheme across the Zone, more enterprises have sought and obtained approval to participate in the Scheme. To minimize implementation hurdles and harmonize the ECOWAS and UEMOA protocols on the ETLS, with a view to adopting a unified legal text, the consolidated
draft text was reviewed by ECOWAS Member States and awaiting validation.

*Protocol relating to Free Movement of Persons, Residence and Establishment.* The Protocol on the Free Movement of Persons, Right of Residence and Establishment was agreed by ECOWAS member-countries in 1979. Article 2 of the protocol provides that “Community citizens have the right to enter, reside and establish in the territory of member-states.” The implementation was programmed in three phases over a 15-year period as follows: Phase I - Right of entry and Abolition of visa; Phase II - Right of Residence; and Phase III - Right of Establishment.

The protocol has been adopted by all member countries, however, none has fully complied with all the provisions of the protocol. The adoption of a common ECOWAS passport, application of visa-free movement of Community citizens and granting the right to remain in any ECOWAS Member State for ninety days without resident permit are being fully observed across the Zone. However, the right to establish is being implemented according to countries’ national laws and the payment of resident fees is being applied by most Member States on reciprocity basis. With respect to the introduction of a national biometric identity card, Nigeria is the only country in the Zone that has issued national biometric identity cards to its citizens, while Ghana and Liberia would commence issuance in 2018. The other Member States of the WAMZ are at different stages of readiness for the introduction of the national biometric identity card.

*Protocol on the establishment of the ECOWAS Brown Card.* To protect citizens of all Member countries in the
event of motor accidents involving motor vehicles from other ECOWAS countries, the Community on 29th May 1982 adopted a Protocol on the ECOWAS Brown Card to cover the liability incurred by the holder of the card in accordance with the laws of each member country which he visits. The scheme, which is a derivation from the protocol on free movement of persons across the ECOWAS sub-region, has been implemented by all member countries. The Scheme compensates inter-territorial third-party motor accident victims in the event of death, injury or property damage. Truckers are not allowed passage if they do not hold a card.

_Adoption of a Community Customs Code_. The ECOWAS Community Customs Code, aimed at harmonizing customs codes and valuation to enhance trade facilitation, has been completed. Upon approval by the Authority of Heads of State, the Code will be applied across the ECOWAS region. The Code is an essential element in the creation of the envisaged customs union in the region. Streamlining and harmonizing customs procedures in the ECOWAS customs union will boost the competitiveness and attraction of the region to investors and increase exports.

_Convention relating to Inter-State Road Transit of Goods (ISRT)._ To facilitate the establishment of a single market in ECOWAS, the Community in May 1980 approved a guarantee scheme termed the Inter-State Road Transit (ISRT) Scheme for goods transiting through a Member State to another. The Scheme is designed to promote free flow of goods among Member States, free of duties, taxes and restrictions while in transit. It involves an indemnity evidenced by a Bond issued by a National Guarantor in the country of Departure of the goods, against the diversion of the goods within a country other
than the country of destination, which would result in a loss of import duties/charges that could have been paid to the Customs authorities in the country the diversion occurs.

The National Road Transport and Transit Facilitation Committee had been set up in the member countries with membership drawn from relevant key stakeholders in private and public sectors. This is to facilitate the free flow of trade and transport along transit trade corridors, thereby leading to increased transit volumes. However, key challenges that adversely affect the smooth functioning of the scheme include: lack of weigh bridges at strategic locations; persistent non-recognition of the log books and certificates of origin and lack of electronic tracking devices on the trucks to monitor transit cargo to avoid diversions and off-loading before reaching its destination; and the continued existence of numerous checkpoints mounted by security and protection agencies. Some Member States have adopted bilateral cooperation frameworks with their neighbours as a means of resolving cross border transit trade issues.

**ECOWAS Common External Tariff (CET).** In Article 3 of the ECOWAS Revised Treaty (1993), a key tool for the harmonization and coordination of the objective of establishing a common market was the adoption of a common external tariff (CET) and a common trade policy, vis-à-vis third countries, in January 2006. By this decision, ECOWAS became a Customs Union. In 2013, the initial four tariff bands adopted from the UEMOA CET was modified to five tariff bands or rates of customs duty.
The ECOWAS CET structure has the following categories:
0% - essential social commodities;
5% - raw materials and capital goods;
10% - intermediate products;
20% - consumer goods; and
35% - specific goods for economic development.

The ECOWAS CET came into force in January 2015. Harmonisation of the measures is important because the ECOWAS CET is ad valorem. One of the measures adopted was the regulation of Customs valuation to ensure that the same system is applied by all member countries and aligned to the World Trade Organisation (WTO) agreement on customs valuation. Trade defence measures are provided also in the CET to remedy injury or threat of injury to production in the sub-region due to massive importation, dumping of imported goods and importation of subsidized goods.

At inception, there were supplementary measures allowing Member States to deviate from the rates stipulated in the CET for a maximum of 3% of the tariff lines. The supplementary measures were broadly two: Import Adjustment Tax and Supplementary Protection Tax. The Import Adjustment Tax could help member countries to gradually adjust to any form of shock upon the implementation of the CET. On the other hand, the Supplementary Protection tax was designed to address world market price volatility and its impact on tariffs and high volumes of importation.

All the Member States of the WAMZ have commenced implementation and no country has so far filed revenue losses associated with the application of the CET. Nigeria commenced implementing the CET in 2015,
followed by Ghana in 2016, The Gambia, Guinea and Liberia joined in 2017, while Sierra Leone joined in 2018. In The Gambia, the compilation of sensitive products’ list was concluded and forwarded to the ECOWAS Commission, while the National CET Committee continued to monitor implementation. CET implementation has been smooth in Nigeria and Ghana, and no major challenge was encountered apart from limited sensitisation at the initial stages of application of the new external tariffs. Implementation of the CET in Liberia has progressed satisfactorily within the framework of a revised five-year (2017-2021) transition programme. The National Legislature of Liberia is reviewing the CET Bill, with a view to streamlining it with the ECOWAS prescribed transitory period of five years. The National Implementation Committee of the CET had been established in Sierra Leone. Training of stakeholders and sensitization workshops to increase the awareness on the impact of the implementation of the CET is on-going. A list of 157 tariff lines for the Import Adjustment Tax (IAT) have been uploaded and submitted to the ECOWAS Commission. The Ghanaian authorities have started preparatory activities toward undertaking a comprehensive study on assessing the impact of the CET on revenue, production and employment, two years after its introduction in Ghana. A similar study to assess post-implementation is being undertaken in Nigeria. Preliminary assessment indicated that full scale implementation of the CET (post-transition) would impact adversely on the Nigerian economy. It is therefore envisaged that the Authorities would further engage the ECOWAS Commission to extend the application of the Supplementary Protection Measures (SPM) beyond 2019 to minimize the negative
impact of full implementation of the CET on the economy.

*Harmonization of Indirect Taxes.* Member countries of the WAMZ apply the Value Added Tax (VAT), except Liberia. The VAT rate differs across the Zone: The Gambia (15 percent), Ghana (17.5 percent), Guinea (18.0 percent), Nigeria (5.0 percent) and Sierra Leone (15.0 percent). In Liberia, the passage of the VAT Bill, which was intended to replace the Goods and Services Tax (GST) is awaiting legislative approval.

*Automated Harmonized Customs Clearance Procedures.* Time required for customs inspection and clearance is an added cost for international trade. A time limit of 48 hours for cargo clearance by customs services within the ECOWAS region was set. To attain the target, a Pre-Clearance procedure was put in place to be undertaken by importers, exporters, banks, customs licensed agents, shipping companies and scanning companies that issue Risk Assessment Reports (RARs). The RARs produced by the scanning companies are expected to eliminate arduous physical examination of cargo. The customs clearance procedure begins when importers, exporters or their agents lodge documents with customs for processing. An important component of this automated system is that traders participate directly in customs processing through the Direct Trader Input (DTI). Through the DTI cafes, traders submit clearance documents online to the Customs Service, thereby reducing human interaction and associated corruption. Human interface with customs officers can only take place at the cargo delivery point.

The harmonization of customs documentation and automated clearing of goods have progressed
satisfactorily across the Zone. Upgraded versions of Automated System of Customs Data (ASYCUDA) or other forms of automated platforms for clearing goods have been deployed at major ports in each Member State. The Gambia and Sierra Leone use the ASYCUDA++ platform, Liberia uses ASYCUDA World, while in Ghana, processing of customs documents for clearing goods are conducted through the Ghana Customs Management System (GCMS) and the Ghana Community Network (GCNet) system. The Single Window clearing process, which is a Pre-Arrival Assessment and Report System (PAARS) was also said to have been introduced in Ghana to allow processing of information on imports prior to the arrival of the consignments, to ensure speedy clearance at the ports. Nigeria adopted a system called the Nigeria Integrated Customs Information System (NICIS). However, it is important to note that the effective functioning of the automated systems is constrained by unstable supply of power and internet connectivity, especially in the rural areas of some Member States.

**Yamoussoukro Open Skies.** In West Africa, some national airlines established in the 1960s as Flag Carriers were not economically viable and subsidized by the States. To remedy the situation, on October 17, 1988 in Ivory Coast, African Ministers responsible for aviation adopted the Yamoussoukro Declaration on the liberalisation of air transport markets in the continent. The supplementary Yamoussoukro Decision to ensure effective and well-sequenced implementation of the earlier declaration was adopted on November 14, 1999. The African Union, in May 2007 in Addis Ababa, Ethiopia mandated the African Civil Aviation Commission (AFCAC) to implement the Yamoussoukro Decision.
Foreign airlines can pay royalties which some countries demand for the privilege of using additional frequencies beyond what is allowed under the Bilateral Air Services Agreement (BASA). But the Yamoussoukro Decision allows any African airline to operate freely to any destination on the African continent. In few countries in the sub-region, private carriers have been allowed to operate in the domestic market. A vital part of the Decision was liberalization; to develop air services in Africa and stimulate the flow of private capital in the industry. Thus, according to Schlumberger (2010), in the implementation of the Yamoussoukro Decision, “the following four main components must be completed: (a) developing competition rules and consumer protection rights; (b) implementing formal arbitration procedures; (c) assuring that the monitoring body, which has already been created, starts functioning by meeting regularly to supervise and follow up on implementation of the Yamoussoukro Decision; and (d) establishing an executing agency.”

The Yamoussoukro Decision is being implemented by all WAMZ Member States. However, the Decision was succeeded by a new Pan African Initiative, the Single African Air Transport Market (SAATM). WAMZ member countries continued to focus on fostering the implementation of the Yamoussoukro Decision on air transport liberalization through the adoption of ECOWAS Community Acts on the establishment of a common air transport legal framework. ECOWAS Member States have adopted a resolution on improving flight connections within the ECOWAS region to facilitate the establishment of direct air links between the capital cities of the member countries.
How Has Trade Fared in the WAMZ?

Trade integration is an important pillar of the WAMZ integration agenda, requiring measuring the performance of member countries on the implementation of the ECOWAS trade and trade-related protocols and conventions and the extent to which they are maximizing the opportunities of the ECOWAS free trade regime. The unavailability of a comprehensive set of indices to assess each Member State’s performance on trade integration and compliance indices for the WAMZ, precipitated constructing the WAMZ Trade Integration Index (WTII). The indices are analytical tools that would track progress towards the achievement of trade integration goals of the Zone.

The essence of constructing the integration index are twofold: (i) to help WAMI review and analyze the relative effectiveness of trade-related policy initiatives towards the realization of trade integration goals of the sub-region; and (ii) to assist Member States identify trade-related policy implementation gaps and proffer evidence-based policies to close the gaps.

The components of the trade integration index were carefully selected bearing in mind the trade integration goals of the Zone and ensuring that they are consistent with the cardinal pillars of economic integration. The selection of indicators was influenced by availability of data, measurability, comparability and simplicity. The Trade Integration Index (TII) has four components and nine indicators. The components are intra-WAMZ trade,

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1 The index was first constructed in 2015 and has since been updated annually to enable the Institute measure how trade has fared in the Zone.
financial environment, connectivity across transport modes, and physical infrastructure. These indices seek to encapsulate policy and logistic issues for trade facilitation. The Compliance Index has seven components and forty-two indicators. The components are: Free Movement of Persons, Right to Reside and Establish; ECOWAS Trade Liberalisation Scheme (ETLS); ECOWAS Common External Tariff (CET); Inter-State Road Transit (ISRT); Brown Card Scheme; Customs Clearance Procedures; and Yamoussoukro Open Skies.

Compliance with the ECOWAS trade-related protocols and conventions have improved since the construction of the WAMZ TII in 2015, following the progress made on the various components of the compliance index. Overall, the compliance index suggests that there was no policy reversal with respect to the implementation of the ECOWAS trade-related protocols and conventions in any of the WAMZ Member States. The WAMZ average score of trade-related protocols compliance index improved to 74.3 per cent in 2017 from 64.94 per cent in 2015. The protocol fully complied with by all Member States is the Browncard Scheme. The protocol least complied with is the ISRT (figure 16 and table 10).

Ghana and Nigeria fared better than the other member countries given their score and the rate of compliance with the ECOWAS trade-related protocols and conventions. Ghana is the most compliant member country with the highest score, as it moved substantially to 87.1 in 2017, from a compliance index score of 78.2 in 2015. Ghana is fully compliant with five protocols, namely: CET, ISRT, Browncard Scheme, automation of customs clearance and Yamoussoukro Open Skies. Nigeria is the second most compliant
WAMZ member country with the ECOWAS trade-related protocol and conventions, as it improved immensely to 86.1 per cent in 2017, from 72.1 per cent in 2015. Nigeria is fully compliant with four of the protocols, which are: CET, Browncard, automated customs clearance and Yamoussoukro Open skies. The third most compliant member country is The Gambia, as it moved to 77.1 per cent in 2017, from 63.2 per cent in 2015. The Gambia was compliant with two protocols – Browncard and automated customs clearance. Guinea is the fourth most compliant Member State as it improved to 66.8 per cent in 2017, from 63.2 per cent in 2015 and complied with one protocol – the ECOWAS Browncard scheme. The introduction of the CET helped to push up the country’s index score. Sierra Leone is the fifth most compliant member country, as its index score improved to 66.1 per cent in 2017, from 59.6 per cent in 2015 and complied with the Browncard Scheme protocol. Liberia is the least compliant member country, which improved its compliance index score to 62.5 per cent in 2017, from 42.9 per cent in 2015 and complied with the protocol on the Browncard Scheme. Liberia made substantial progress following the introduction of the CET, ETLS, national biometric identity card and further liberalisation of its aviation industry.
During the period 2015-2017, the WAMZ trade integration index deteriorated to 37.7 per cent in 2017 from 47.01 per cent in 2015. The trade integration index recorded lower scores in all components, except in physical infrastructure, where it recorded marginal improvement (figure 17 and table 11). The general decline could be attributed to low investment in infrastructure by member countries, arising from scarce fiscal resources to implement their respective infrastructure development programmes. As such, the performance of other components like connectivity across transport modes, financial environment and intra-regional trade flows were seriously affected.

In terms of how the member countries fared on trade performance as measured by the WAMZ TII, Nigeria fared better, although it’s score worsened to 50.7 per cent in 2017 from 65.8 per cent in 2015. The decline was experienced in all components, except in connectivity across transport modes, as it improved marginally to 84.8 per cent in 2017 from 83.8 per cent in 2015. Ghana is second, as the trade integration index
score declined to 47.8 per cent in 2017 from 61.4 per cent in 2015, attributed to decline in the performance of all the components of the index. The third is The Gambia, whose score declined to 38.9 per cent in 2017 from 42.9 per cent recorded in 2015. All the components of the index contributed to the lower score, except physical infrastructure that improved significantly to 86.2 per cent in 2017 from 67.3 per cent in 2015. The fourth member country is Liberia with a reduced index score of 35.6 per cent in 2017 from 56.9 per cent in 2015. Liberia did not fare well in the components of trade integration index, except the financial environment, as it posted a 100 per cent score in 2017. The next is Guinea with a reduced score of 34.1 per cent in 2017 from 45.3 per cent in 2015, attributable to decline in all the components of the trade integration index. However, Sierra Leone was the only member country that experienced increase in the trade integration index score, where it recorded an improved score of 20.1 per cent in 2017 from 9.7 per cent in 2015. Although least in performance, Sierra Leone’s progress stemmed from improvement in the score of the physical infrastructure component in 2017.

**Figure 17: WAMZ Trade Integration Index**

![Figure 17: WAMZ Trade Integration Index](source: WAMZ Trade Integration Report (various issues))
Given the scores of the WAMZ trade integration index and compliances indices for the Zone and Member States, we can reasonably conclude that although significant progress has been recorded in terms of policies and programmes put in place both at the national and regional level to promote trade and boost intra-regional trade, progress has been very slow, and trade has not attained its envisaged level.
Table 10: Compliance with ECOWAS Trade-related Protocols and Conventions

<table>
<thead>
<tr>
<th>Country</th>
<th>Free Movement</th>
<th>ETLS</th>
<th>CET</th>
<th>ISRT</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Gambia</td>
<td>60.0 60.0 60.0</td>
<td>50.0 50.0 50.0</td>
<td>62.5 62.5 87.5</td>
<td>62.5 62.5 62.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>50.0 60.0 60.0</td>
<td>50.0 50.0 50.0</td>
<td>87.5 100.0 100.0</td>
<td>100.0 100.0 100.0</td>
</tr>
<tr>
<td>Guinea</td>
<td>90.0 90.0 90.0</td>
<td>50.0 50.0 50.0</td>
<td>75.0 75.0 100.0</td>
<td>12.5 12.5 12.5</td>
</tr>
<tr>
<td>Liberia</td>
<td>50.0 50.0 60.0</td>
<td>50.0 50.0 75.0</td>
<td>12.5 62.5 75.0</td>
<td>12.5 12.5 12.5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>90.0 90.0 90.0</td>
<td>50.0 75.0 75.0</td>
<td>100.0 100.0 100.0</td>
<td>25.0 37.5 37.5</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>80.0 80.0 80.0</td>
<td>50.0 50.0 50.0</td>
<td>75.0 62.5 62.5</td>
<td>62.5 87.5 87.5</td>
</tr>
<tr>
<td>WAMZ</td>
<td>70.0 71.7 73.3</td>
<td>50.0 54.2 58.3</td>
<td>68.8 68.8 87.5</td>
<td>45.8 52.1 52.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Browncard Scheme</th>
<th>Customs Clearance</th>
<th>Yamoussoukro Open Skies</th>
<th>Overall Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Gambia</td>
<td>100.0 100.0 100.0</td>
<td>100.0 100.0 100.0</td>
<td>80.0 80.0 80.0</td>
<td>73.6 73.6 77.1</td>
</tr>
<tr>
<td>Ghana</td>
<td>100.0 100.0 100.0</td>
<td>100.0 100.0 100.0</td>
<td>60.0 60.0 100.0</td>
<td>78.2 81.4 87.1</td>
</tr>
<tr>
<td>Guinea</td>
<td>100.0 100.0 100.0</td>
<td>75.0 75.0 75.0</td>
<td>40.0 40.0 40.0</td>
<td>63.2 63.2 66.8</td>
</tr>
<tr>
<td>Liberia</td>
<td>100.0 100.0 100.0</td>
<td>75.0 75.0 75.0</td>
<td>0.0 0.0 40.0</td>
<td>42.9 42.9 62.5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>100.0 100.0 100.0</td>
<td>100.0 100.0 100.0</td>
<td>40.0 100.0 100.0</td>
<td>72.1 86.1 86.1</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>100.0 100.0 100.0</td>
<td>50.0 50.0 50.0</td>
<td>0.0 20.0 20.0</td>
<td>59.6 66.1 66.1</td>
</tr>
<tr>
<td>WAMZ</td>
<td>100.0 100.0 100.0</td>
<td>83.3 83.3 83.3</td>
<td>36.7 50.0 63.3</td>
<td>64.9 68.9 74.3</td>
</tr>
</tbody>
</table>

Source: WAMZ Trade Integration Report (Various Issues)
### Table 11: WAMZ Trade Integration Index Score

<table>
<thead>
<tr>
<th>Country</th>
<th>Intra-Regional Trade Flows</th>
<th>Financial Environment</th>
<th>Connectivity Across Transport Modes</th>
<th>Physical Infrastructure</th>
<th>Trade Integration Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Gambia</td>
<td>58.54 67.54 34.15</td>
<td>30.53 28.66 21.84</td>
<td>15.35 13.39 13.33</td>
<td>67.33 67.58 86.22</td>
<td>42.94 44.29 38.89</td>
</tr>
<tr>
<td>Ghana</td>
<td>28.62 13.22 9.14</td>
<td>87.95 100 71.01</td>
<td>40.67 44.07 39.98</td>
<td>88.27 79.87 66.97</td>
<td>61.38 59.29 46.78</td>
</tr>
<tr>
<td>Guinea</td>
<td>72.43 58.0 62.59</td>
<td>52.16 33.76 29.03</td>
<td>9.63 9.55 7.92</td>
<td>46.95 25.96 36.69</td>
<td>45.29 31.82 34.06</td>
</tr>
<tr>
<td>Liberia</td>
<td>77.42 76.42 25.26</td>
<td>100 96.18 100</td>
<td>3.74 4.14 4.14</td>
<td>46.53 32.39 12.79</td>
<td>56.92 52.28 35.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1.16 2.59 1.23</td>
<td>96.67 69.43 48.21</td>
<td>83.76 84.34 84.84</td>
<td>81.65 71.27 68.67</td>
<td>65.81 56.91 50.66</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>28.13 56.64 57.2</td>
<td>0.0 0.0 0.0</td>
<td>9.05 8.84 8.9</td>
<td>1.67 3.48 14.35</td>
<td>9.71 17.24 20.11</td>
</tr>
<tr>
<td>WAMZ</td>
<td>44.38 45.74 31.66</td>
<td>61.22 54.67 45.02</td>
<td>27.03 29.28 26.43</td>
<td>55.4 46.76 47.62</td>
<td>47.01 44.11 37.68</td>
</tr>
</tbody>
</table>

Source: WAMZ Trade Integration Report (Various Issues)
4.1.5 Legal and Institutional Issues

New institutionalism argues that solid institutions are a requirement for building a regional community. Mirroring this position, Rodrik et al. (2002) states that “the quality of institutions ‘trumps’ everything”. Other authors have taken this a step further. Oppong (2011)\(^2\) is of the view that “effective economic integration is the product of properly structuring and managing, within well-defined legal frameworks, vertical, horizontal and vertico-horizontal relations among states, legal systems, laws and institutions”. While Kaberuka (2013) opined that “any strategy - anywhere - is only as good as the people who implement it and the health of the organisation that delivers it”.\(^3\) This connotes that every system of multilateral or regional cooperation requires a consentus ad idem and a robust legal and institutional framework to function successfully.

The European Union (EU) offers the best illustration of a profound and extensive monetary cooperation arrangement between sovereign nations. A major achievement or milestone of that arrangement was the launch of the euro, which is arguably the most important currency in the world next only to the US dollar. This is by no means a coincidence. Years of deep thought, planning and re-planning and the required political will were pivotal in forging the European integration story up to that point. It is therefore no surprise that the EU is the benchmark.

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The WAMZ designed a similar framework to that of the EU. It adopted the "economists" or "monetarists" approach, which proposes the gradual achievement of economic convergence prior to monetary union. This view found expression in the work of one of the founding fathers of the European Union project, Jean Monnet, on the relevance of institutions to the integration process\(^4\). The constitutional basis for the WAMZ is entrenched in *The Agreement of the West African Monetary Zone* (the WAMZ Agreement). Similar to the *Maastricht Treaty*\(^5\), the Agreement created the WAMZ and laid out the legal and institutional framework for the establishment of a single economic and monetary space within the WAMZ. The WAMZ and the EU both adopted a single central bank to formulate a single monetary policy, with price stability as its primary objective. However, whereas the EU initially adopted the decentralised system of supervision and regulation of banks, the WAMZ chose to adopt a centralised system with a single supranational authority to license, supervise and regulate all financial institutions in the Zone\(^6\). The legal and institutional framework of the WAMZ and the EU will be summarised and discussed briefly.

*Summary of WAMZ Legal and Institutional Framework*

*The Agreement of the WAMZ:* The Agreement establishing the WAMZ was executed by the Authority and Heads of Government (the Authority) in December, 1993.


\(^5\) More formally referred to as the Treaty on European Union, it is the international agreement that established the European Union.

\(^6\) It is interesting to note that following the financial crises of 2008, the EU is moving towards regulation and supervision of banks at a “supranational level”.
2000\(^7\). Under Article 6, the institutions of the WAMZ are established namely: the Authority of Heads of State and Government; the Convergence Council; the Technical Committee; the West African Monetary Institute; the West African Central Bank; and the Stabilisation and Cooperation Fund. The Authority is empowered under the same Article to establish any other institution to promote and advance the objectives of the WAMZ. These objectives, which are, enshrined in the Agreement, are the attainment of stable prices, sound public finances and monetary conditions, and a sustainable balance of payments for Member States of the Zone. The Agreement placed the responsibility on Member States to conduct their economic policies in line with the objectives of the Agreement. It provided mechanisms for monitoring close coordination of economic policies and sustained convergence of economic performance of Member States.

*The Statute of the West African Monetary Institute*: WAMI was established in December, 2000 as a transitional institution to carry out preparatory activities leading to the establishment of the WACB and the introduction of a common currency in the WAMZ. Its objectives and functions included; monitoring and assessing compliance with the convergence criteria; adopting price stability as its central objective and strengthening the coordination of monetary policies in order to achieve that objective; making the necessary preparations for the conduct of a common monetary policy; making preparations for the issue of a common currency; and supervising the development of an Exchange Rate

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\(^7\) Liberia was not a signing member of the WAMZ. She acceded to the Agreement much later in 2010.
Mechanism and a West African Monetary Unit for settlements in the Zone.

At its 9th Summit in Abuja, Nigeria in June, 2009, the Authority approved an expanded work programme for WAMI. The expanded work programme included the development of national and zonal payments systems and the completion of legal frameworks. It also incorporated new structural measures and benchmarks to facilitate regional integration, such as the liberalization of financial markets and capital accounts, as well as the establishment of a common market and customs union. The inclusion of these structural measures effectively transformed the objective of the WAMZ from a monetary union programme to a full economic and monetary integration programme.

The Stabilisation and Cooperation Fund of the West African Monetary Zone
The Stabilisation and Cooperation Fund (SCF) agreement was executed by the Authority in December, 2000. It is a special purpose vehicle operated under the authority of the WAMZ to provide financial liquidity for the correction of temporary disequilibria in the balance of payments of Member States\(^8\). It is to be disbursed in two ways; either as a short-term loan to correct temporary imbalances in the external payments position of Member States, or a medium-term stabilisation loan to correct disequilibrium in the balance of payments of a Member State caused by extraordinary or unforeseen circumstances. In the case of the latter, a stabilisation programme shall be

\(^8\) The take-off amount of the SCF was originally US$50.00 million but was increased to US$100.00 million. All contributions by member countries are in accordance with the ECOWAS budgetary contribution formula.
required from the Member State seeking the loan. In either way of disbursement, the single obligor limit of the SCF shall not exceed 25% of the Fund’s total resources.

**The Statute of the West African Central Bank (WACB):** The Statute of the WACB established a single monetary authority with responsibility to introduce a common currency and formulate monetary policy for the WAMZ. It also established the WAMZ model of central banking with the WACB as the regional central bank and the existing national central banks as branches and channels for the implementation of monetary policy. The primary objective of the WACB is to maintain price stability. It also has the ancillary objective of supporting the general economic policies of Member States. This however, would be to the extent that they are aligned with the objectives of the WAMZ and do not prejudice the primary objective of the WACB. The powers, responsibilities and functions of the WACB include the formulation and implementation of monetary policy and exchange rate management. The WACB will hold and manage foreign reserves of Member States, issue the WAMZ legal tender and be the guarantor of the currency’s convertibility; unlike what obtains in the CFA franc zone⁹. The WACB would also be responsible for the efficient operations of the WAMZ payments system and in conjunction with the national central banks, would provide facilities for the clearing and payments systems. The Statute of the WACB has been revised and is awaiting the approval of the Authority.

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⁹ The French government guarantees unlimited convertibility of CFA francs into Euros while requiring a centralization of 50% of the reserves of the member countries of the WAEMU and CAEMC.
The Statute of the West African Financial Supervisory Authority (WAFSA): Mindful of the hazards of the “Christmas tree effect”\(^\text{10}\) and the concerns of being overburdened by matters extraneous to its primary objective or functions, the argument against a single agency for prudential regulation and supervision was made with the establishment of the WAFSA. The principal object of the WAFSA is to promote the general safety, stability and effective working of the financial system in the WAMZ. Its functions include the licensing, supervision and regulation of financial institutions; the monitoring of compliance and enforcement of provisions of relevant laws and regulations; the promotion of best practices and the protection of the interests of depositors. The 7\(^{\text{th}}\) Meeting of the Convergence Council of the WAMZ held in 2005 adopted the Statute of the WAFSA.

The Statute of the West African Monetary Zone Secretariat: Modelled after the European Commission and the UEMOA Commission, the Secretariat was established by the Statute of the West African Monetary Zone Secretariat to assume the functions of WAMI after the take-off of WACB. Quasi-executive in nature, the Secretariat was given the objective to promote macroeconomic convergence in the WAMZ and to enhance growth and stability in the region. In addition to the designated functions it would inherit from WAMI, the Secretariarit would coordinate the activities of the organs of the WAMZ; act as depository for decisions made and follow up on implementation of such decisions; and recommend the imposition of fines on Member States that breach provisions of extant laws of

\(^{10}\) A situation of trying to do too many things at once with very little mastery of any of them. A “jack of all trades and master of none”.
The role of the Secretariat is crucial in building on the gains of the WAMZ programme and the milestones achieved. It was executed by the Authority in Conakry, Guinea in September, 2004.

**The Banking Statute of the West African Monetary Zone:** The Banking Statute of the WAMZ is a product of the harmonisation of the Banking Acts of the Member States of the Zone. The original version of the Banking Statute of WAMZ was finalised in June 2009 based on international best practice at the time, and the Basel Core Principles for Effective Banking Supervision. The broad objective is to provide an effective legal and regulatory framework for the supervision of banks and non-bank financial institutions, in order to ensure the soundness and safety of the financial system with the ultimate goal of ensuring the stability of the macroeconomic environment. However, following the global financial crises of 2008 and the European debt crises that started in the latter part of 2009, WAMI, with technical assistance from the Deutsche Bundesbank and the International Monetary Fund, comprehensively reviewed the Banking Statute and its scope of application. The application of the draft Act was thereafter expanded to cover the licensing and regulation of financial holding companies and as a consequence, its title was changed to “Model Act for Banks and Financial Holding Companies in the WAMZ (MB&FHC)” to reflect this reality. The MB&FHC was adopted by the Convergence Council at its 40th meeting held in Abuja, Nigeria in September 2018.

**Non-Bank Financial Institutions Statute of the West African Monetary Zone:** Non-Bank Financial Institutions Statute was adopted by the Convergence Council at its 22nd Meeting in Freetown, Sierra Leone in June, 2008.
The objective of the Statute is to provide an effective legal framework for the licensing, regulation and supervision of non-bank financial institutions in the WAMZ. The Statute also seeks to ensure the safety, soundness and stability of the macro-economic environment in which the NBFIs operate\textsuperscript{11}. For reasons similar to those canvassed for reviewing the Banking Statute, the Institute has initiated a comprehensive reform of the Non-Bank Financial Institutions Statute to accommodate evolving regulatory challenges.

\textit{Payments System Statute of the West African Monetary Zone:} The Payment System Statute of the WAMZ was adopted by the Convergence Council at its 22\textsuperscript{nd} Meeting in Freetown, Sierra Leone in June, 2008. The Statute provides the legal framework for the establishment, designation, operation and supervision of payments system in the WAMZ. It provides the platform for effective regulation of clearing and settlement systems; a mainstay for efficiency and stability in the financial system.

\textit{Single Economic Space and Prosperity Agreement of the West African Monetary Zone:} The Convergence Council executed the Single Economic Space and Prosperity Agreement of the WAMZ in June, 2008 at its 22\textsuperscript{nd} Meeting held in Freetown, Sierra Leone. The Agreement was conceptualised to create a homogeneous economic area for the promotion of trade and economic relations in the WAMZ. The Agreement provided for the removal of barriers, which impede trade and other economic

\textsuperscript{11} NBFIs, are an established segment of the financial system that facilitate alternative financial services not traditionally suited to banks. In more advanced economies, they usually serve as buffers to protect the economy from financial shocks.
activities in order to raise the living standards of citizens of the Zone.

**Model Fiscal Responsibility Act:** The Model Fiscal Responsibility Act was adopted by the Convergence Council at its Meeting in Conakry, Guinea in December, 2007. The objective of the Act is to provide for prudent management of State resources, ensure efficient fiscal management and long-term macro-economic stability by removing fiscal impediments to the effective conduct of monetary policy. The Act encourages fiscal sustainability through limits on State borrowings, debts and deficits as well as greater transparency in fiscal operations of the State. One of the main features of the Act is the requirement for Member States to establish a Fiscal Responsibility Council and Governing Board with oversight responsibility for fiscal policy issues. The Council would amongst other things, disseminate standard practices for greater efficiency in the allocation and management of public resources.

**Summary of EU Legal and Institutional Framework**

**The Maastricht Treaty**

The Maastricht Treaty\(^\text{12}\) established the EU. It built upon several decades of work on economic and political cooperation in Europe and provided the platform for the launch of the single European currency. It was assented to in February, 1992 by twelve countries\(^\text{13}\) and subsequently ratified by them, with some having the need to hold referendums. The Treaty officially came

\(^{13}\) Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the United Kingdom.
into force in November, 1993.\textsuperscript{14} It was based on three main pillars: the European Communities, which created European citizenship and allowed citizens to reside in and move freely amongst Member States; a Common Foreign and Security Policy; and enhanced cooperation in the areas of Home Affairs and Justice. It laid the foundation for the creation of the single European currency, the \textit{Euro}, and defined a set of convergence criteria for participation in the common currency. It also set out and redefined the institutions of the EU and their decision-making processes.\textsuperscript{15}

\textit{European Parliament:} The European Parliament metamorphosed from a European Assembly of the European Coal and Steel Community.\textsuperscript{16} It was mainly a consultative assembly with no formal powers consisting of non-elected representatives of national assemblies. However, it continued to gain power over time and with the signing of the Single European Act of 1968 it was renamed the ‘European Parliament’\textsuperscript{17}. Direct elections to the European Parliament began in 1979. It has 751 members including its President and elections take place every 5 years. The European Parliament has three primary functions: it is a co-legislator of EU laws with the Council in a lot of areas; it exercises joint power with the Council over budgetary issues through which it can influence EU expenditure; and it performs oversight functions on the Commission.

\textit{The European Council:} The European Council was not originally conceived as an institution of the EU, but it is

\textsuperscript{14} 16 countries have joined the EMU since then, albeit with 1 set to leave (following the BREXIT vote in the United Kingdom).
\textsuperscript{15} Article 4 TEU
\textsuperscript{16} Chapter 11, Treaty of Paris, 1951
\textsuperscript{17} Article 3 TEU
currently regarded as one of the most powerful institutions of the EU. The Treaty of Lisbon in 2009 formally established the European Council as one of the seven official institutions of the EU. Prior to that time, the European Council operated as a _de-facto_ institution of the EU rather than _de-jure_. It started as a meeting of Heads of State in December 1974 at the prompting of the French President, Valery Giscard d’Estaing, who desired an informal gathering for discussions. As moves for European integration became more serious, the meetings became more frequent and started to gain in significance. Subsequently, the role of the European Council grew in prominence culminating in its formal recognition in the Treaty of Lisbon. It comprises the highest political authority in the EU Member States. Its primary function is to set the strategic agenda of the EU and provide the political will to achieve the agenda. It meets at least four times in a year or more frequently as situations demand.

_The Council of Ministers of the European Union:_ This is the representative body of the Member States of the EU. The Council of Ministers is comprised of one ministerial level representative each from the various Member States with the authority to commit their governments and cast its vote. There is no formal head of the Council, although the General Affairs Council, comprised of the Ministers of Foreign Affairs, coordinates its functions. The Council of Ministers of the EU has three major roles: policy making; coordinating functions as laid down in the Treaties; and joint legislative and budgetary

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19 L. van Middelaar, _The Passage to Europe. How a Continent Became a Union_ (Yale University Press, 2014).
functions with the European Parliament. Unlike the European Parliament, no law can be adopted in the EU without the buy-in of the Council. Decisions are reached by the Council using different approaches like simple majority voting, unanimity and qualified majority voting. The latter is the most widely used and can be said to have engendered the success of the EU as decision making by unanimity have been known to lead to prolonged stalemates in international affairs.

**The European Commission:** The European Commission is the heartbeat of the EU and a key ingredient to the success of the union. It is a unique body and one of the key institutional innovations that distinguish the EU from other multilateral institutions. It is a supranational body that personifies the common interests of the union and upholds its shared objectives. The Commission has wide-ranging powers and functions spanning legislative, administrative and quasi-judicial responsibilities. It plays a very vital role in the legislative process of EU laws. In most areas, except the Common Foreign and Security Policy, for any legislation to be adopted, a proposal is usually required from the Commission. In addition, the Council and Parliament frequently delegate rule-making or implementing powers to the Commission regarding their legislative functions. The Commission is the executive arm of the EU. It administers the budget of the EU and its revenue and is in charge of running most of its programs. It is also plays an important role on

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21 Article 16 TEU  
22 Requires at least 55% of Member States that together represent at least 65% of the EU population.  
24 Articles 290 & 291 TFEU
behalf of the EU in dealings with third countries. As guardian of the Treaties and the ‘watch dog’ of EU law, the Commission monitors compliance of EU law by Member States and companies. If anyone is found wanting, the Commission may initiate an infringement procedure against them that may or may not result in a fine.

The European Court of Justice: Part of the pioneer institutions of the European integration agenda, the European Court of Justice is the judicial body of the EU. Very similar to the Commission, the Court is a supranational body that has also been vital to the success of European integration. Its work has ensured ‘that in the interpretation and application of the Treaties the law is observed’ and it has been the greatest proponent of the concept known as ‘integration through law’.\footnote{An intricate web of fluid ideas that support the view that European Union law has aided the integration process. For further reading see Shaw, J. & More, G., (1995) New Legal Dynamics of European Union (Oxford University Press: Oxford).} It has jurisdiction over all EU law and ensures that EU law is uniformly interpreted in all Member States. It consists of two courts. The higher court is called the Court of Justice of the European Union, while the lower one is the General Court, formerly called the Court of First Instance. The Court of Justice consists of one judge per Member State while the General Court has two judges per Member State. The primary function of both courts is to ensure the observance of EU law in all Member States of the EU.

The European Central Bank (ECB): The ECB is an independent central bank with responsibility to formulate and implement European monetary policy. Its primary goal is to ensure price stability in the Eurozone.
It conducts foreign exchange operations and ensures the efficient workings of the payments system. Founded in June, 1998, it succeeded the European Monetary Institute which was established to undertake preparatory activities for the launch of the Euro in January, 1999. Its governing body is comprised of representatives of Member States central banks and the board of the ECB.

The Court of Auditors: The Court of Auditors is responsible for checking the books of the EU. It audits the accounts of all revenue and expenditure of the EU to make sure that all extant laws have been followed in the financial management of EU budget. It is comprised of one member per Member State.

4.2 Impediments

Even though substantial progress has been made towards the achievement of the nominal benchmark criteria for the establishment of a second monetary zone in the West African sub-region, the Zone continued to face some challenges. These impediments stem from real or structural factors and institutional weaknesses.

Monetary Policy Effectiveness

The conduct of monetary policy in the WAMZ is confronted with many challenges, which constrains the capacity of the various monetary authorities to effectively influence price level, and ultimately achieve a stable macroeconomic environment conducive to growth. Some of these challenges include: lack of independent monetary institutions; structural factors; as well as weak financial markets, which limits the transmission mechanism of monetary policy. With the probable exception of Nigeria and Ghana, the financial
system in the WAMZ is mostly dominated by the banking sector, implying that other components of the financial system are virtually absent. This scenario has far-reaching implications. As such, the WAMZ member countries should strive to develop other components of the financial system, particularly the capital market, with a view to enhancing the transmission channel of monetary policy, as well as providing a platform for the integration of financial markets in the Zone.

**Fiscal dominance**

Fiscal dominance has been a major constraint to monetary integration in the WAMZ. The difficulty in meeting the budgetary expenditures of government due to revenue shortfalls, has resulted in fiscal slippages and the inability to meet the fiscal deficit criterion. Fiscal dominance has led to heavy reliance on the central banks to finance fiscal operations for some Member States. Furthermore, it has resulted in increasing debt levels. The attendant high public debt stock would continue to be a burden on fiscal operations and ultimately affect the integration agenda. Without being controlled, it would be difficult to attain the single digit inflation objective of the Zone and invariably threaten monetary policy independence. Besides, it would affect exchange rate stability and stifle economic growth in the medium- to long-term.

**Low Level of Intra-WAMZ Trade**

As indicated in 4.1.4, the level of intra-WAMZ trade remains low due to a host of factors. Trade in the region is dominated by low primary products, while industrialization remains rudimentary, characterized by limited manufacturing activities in member countries. The existence of tariff (transit fees, VAT on
transit services, escort fees, et cetera) and non-tariff barriers (multiple check points, border closures, illicit payments, delay at border points, et cetera) continue to increase the cost of domestic production. Despite the adoption of the relevant texts on the removal of all forms of tariff and non-tariff barriers on goods of community origin, implementation has been slow and various forms of tariff are still being applied across the Zone. Protocols that seek to boost intra-regional trade are applied selectively under the pretext of protecting national interest, thereby defeating the original intent of the protocols.

In addition, the institutions and agencies responsible for trade facilitation and promotion are not well coordinated in the member countries. This has resulted in cumbersome administrative procedures, bureaucratic delays and increase in cost to economic agents to effectively participate in intra-regional trade. The implementation of the ETLS is riddled with challenges including susceptibility of ETLS approved certificates to forgery, delay in issuing notification for approvals, and lack of a real time updated record of certified products and registered companies participating in the scheme.

Besides, the poor quality of trade statistics poses limitations for designing and implementing effective trade policies. Due to the large informal sector, official statistics does not capture many important activities of the real sector in the Zone. The incomplete trade statistics is further compounded by misreporting and inaccuracies attributable to differences in countries' recording of trade transactions, time lags, custom valuations, among others.
Institutional Weaknesses

The quality of institutions in the WAMZ member countries is generally weak, with both direct and indirect implications on the level of output and ultimately, the convergence criteria. Most institutions in the Zone like the judiciary, law enforcement agencies, and business regulatory and supervisory agencies generally perform below the acceptable level like in most emerging economies. The implication of this low performance is felt on the level of investment and by extension, aggregate output.

In addition, structural rigidities and lack of effective competition (especially in non-tradeable sectors) has led to misallocation of capital, thus weakening the supply potential of the economies of member countries to catch up with the pace of domestic demand. Specifically, a readjustment and reallocation of capital from tradeable sectors (manufacturing) to untradeable sectors (services) has resulted in elevated unemployment and loss of income in the sub-region.

Financial Integration

The degree of financial sector development in the Zone is highly heterogeneous, making it difficult to have a seamless integration of the financial markets. In Nigeria and Ghana, both the capital and money market are fairly developed with substantial instruments. Furthermore, while countries like Nigeria and Ghana have long deployed robust payments system infrastructure like RTGS, other countries are just in the process of putting these infrastructure in place. Similarly, in both Nigeria and Ghana, the monetary authority has attained some level of independence, which enable them to conduct monetary policy using
market-based instruments. In the remaining countries of the WAMZ, the capital market is virtually non-existing, while the banking sector is more oligopolistic in structure. This invariably affects the cost of capital and debt, market liquidity and the ability to conduct monetary policy by the central banks. The structure of the financial system therefore, makes it difficult to contribute maximally to growth, especially in mobilizing the required long-term capital for sustainable growth and development in the Zone.

Quoting and trading in the WAMZ national currencies by deposit money banks remained limited, partly due to the lack of mechanism for clearing and settlement of accumulated long positions of banks, and writing of invoices in foreign exchange, instead of the national currencies.

Besides, most countries in the region have not fully liberalized their capital accounts. Various restrictions on outflows continue to exist, including restrictions on money market instruments, real estate, commercial banking and institutional investors. Controls on capital mobility constitute a major barrier to the attainment of capital markets integration in the WAMZ and this has the potential to derail the integration process. In the banking sector, the regulatory minimum capital requirements vary significantly across member countries, with implications for arbitrage on the one hand, and a barrier to entry on the other hand.

*Differential natural resource endowment and asymmetric shocks*

The WAMZ economies depend heavily on the production and export of primary commodities, hence prone to adverse shocks resulting from volatilities in the
international commodities markets. Many of the economies have the same structural characteristics and lack economic complementarities, having undiversified production structures and exports that are dominated by a few primary products. Nigeria is a net oil-exporting country, with Ghana becoming an emerging exporter of crude oil, while the other countries are oil-importers. Terms of trade shocks, exchange rate shocks, and other shocks to the real economy affect these countries, impacting adversely on both internal and external balances. Similarly, exposure to primary commodity price shocks makes it difficult for member countries to maintain the WAMZ convergence criteria relating to fiscal deficits and external reserves.

Dependence on aid flows

Most WAMZ countries depend on foreign aid to finance substantial portions of their budgetary expenditures. However, dependence on aid inflows is a significant fiscal risk to the region, given the volatility associated with such inflows. For countries that rely heavily on aid inflows for budgetary financing, the attainment of the fiscal deficit to GDP (excluding grants) criterion on a sustainable basis will continue to be a key challenge, requiring further deepening of revenue and expenditure reforms.

Inadequate Infrastructure

Inadequate infrastructure in member countries remain one of the key challenges in the monetary integration process. The sub-region has inadequate transport infrastructure, energy and ICT, constituting a major hindrance to regional integration and economic growth. For example, the free movement of goods and persons is cumbersome as the sub-region lacks good transport
connectivity modes like quality roads and railway systems to transport goods. In the aviation sector, airline business is fraught with a couple of challenges, which include protective legal barriers, regulatory hurdles, inadequate infrastructure, and high taxes, among others. This makes air travel in the Zone difficult, with adverse consequences on intra-regional trade.

**Revenue Loss**

Reducing trade barriers in economies where tariff revenue is one of the most significant sources of government revenue, complicates the inter-temporal trade-off between the apparent short-term loss of revenue and the expected long-term benefits emanating from regional integration. At present, the potential revenue loss from intra-WAMZ trade is low, owing to the low level of intra-regional trade flows. However, as trade grows in the region, countries depending on external tariff may lose a significant part of their government revenues to integration.

**Poor ratification and domestication of WAMZ Treaties**

Treaties are legal instruments through which States enter into obligations and assume responsibilities in the international space\(^{26}\). To give municipal effect to Treaties, States that support the Dualist theory\(^{27}\) have to ratify and domesticate the Treaty into local law, while

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\(^{26}\) Treaties are governed by international law with root in the Vienna Convention on the Law of Treaties of 1969.

\(^{27}\) Such as the Commonwealth countries of The Gambia, Ghana, Nigeria and Sierra Leone. They expound that local and international law are two separate systems.
States with Monist leanings only have to ratify the Treaty for it to become binding locally. A similar concept can be found in the EU known as the Approximation of Laws.

The WAMZ legal framework is made up of multilateral Treaties that define the extent of the relationship among the Member States of the Zone. While some member countries have ratified the legal instruments for the smooth take-off and functioning of the monetary zone, others are yet to ratify and domesticate some of the instruments. Similarly, most countries in the Zone have outstanding obligations in respect of the West African Central Bank’s (WACB) capital and their Stabilization and Cooperation Fund (SCF) contributions. Despite signing the regional trade integration obligations, some member states are yet to ratify and domesticate regional trade-related protocols and conventions to allow for effective implementation of these commitments and boost integration in the region (table 12). For an effective economic and monetary union, it is imperative that Member States ratify and domesticate, where necessary, all relevant Treaties.

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28 It presupposes the unity of juridical order with the priority of international law. France and its former colonies like The Republic of Guinea adopt this theory.

29 It is a unique obligation placed on aspiring members to align their national laws, rules and procedures in order to give effect to the entire body of EU law. The obligation continues after accession.
<table>
<thead>
<tr>
<th>Treaty</th>
<th>The Gambia</th>
<th>Ghana</th>
<th>Guinea</th>
<th>Liberia</th>
<th>Nigeria</th>
<th>Sierra Leone</th>
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<tr>
<td>WAMZ Agreement</td>
<td>Ratified</td>
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<tr>
<td>WACB Statute (Revised)</td>
<td>Adopted by Council but not yet signed by the WAMZ Authorities</td>
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<td>WAMZ Secretariat</td>
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<td>WAFSA Act</td>
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<td>Model Act for Banks &amp; Financial Holding Companies</td>
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<td>Non-Bank Financial Institutions Statute</td>
<td>Adopted by Council but not yet signed by the WAMZ Authorities</td>
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<td>Payment System Statute</td>
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<td>Model Fiscal Responsibility Act</td>
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Table 12: Status of Ratification and Domestication of WAMZ Treaties
**Threat to National Sovereignty**

The concept of the erosion of national sovereignty with the ceding of certain sovereign powers to supranational bodies of the WAMZ, like the WACB\textsuperscript{30} or the WAMZ Secretariat is a likely impediment to the regional integration agenda. Nationalism, fueled by the prospect of loss of sovereignty, is a probable contributory factor to the lukewarm attitude of the Authorities to the actualisation of the WAMZ programme, as evidenced by the poor record of ratification and domestication of WAMZ Treaties.

**Conflict of laws and jurisdictions**

The differences between the broad legal systems in the WAMZ and common traditions and cultures practiced in the various jurisdictions may give rise to conflict of laws. There are clear differences in jurisprudence in common law\textsuperscript{31} and civil law,\textsuperscript{32} both of which are practiced in the WAMZ. This is particularly evident in the area of contract law. Paradoxically, even within these two classes of laws you will find national legal systems at variance with each other. An aggressive project for *real* harmonisation of laws in the WAMZ should be pursued to address conflicts in the interest of the WAMZ agenda.

\textsuperscript{30} The loss of sovereignty in respect of the issuance of national currencies to a supra national body would create a constitutional dilemma in Ghana and The Gambia requiring constitutional amendment.

\textsuperscript{31} Practiced in the Commonwealth countries of The Gambia, Ghana, Nigeria and Sierra Leone.

\textsuperscript{32} Practiced in Guinea.
Poor political will and public support

Alongside public support, political will is essential to driving regional integration. The failure to meet past deadlines for the full take-off of the WAMZ may be traced to weak political will. The regional integration process has been characterised by feeble political will and tepid public awareness campaigns. The benefits of regional integration in the Zone have not been sufficiently represented in public discuss or given adequate media coverage, leading to poor awareness of the WAMZ integration agenda by the populace of the sub-region.

Poor frequency of Summit Meetings of the Authority

Summits are a constructive means of conducting international relations. It is a meeting of Heads of Government to reach agreements on agenda issues and to provide opportunities for them to evaluate and provide strategic direction for cooperation. The European Council is required to meet at least four times every year, and more when necessary. WAMZ Summits should be held twice in every year, but this has not been the case. In over seventeen years of existence, the WAMZ has only held nine Summits with the last held in June 2009 in Abuja, Nigeria. The poor frequency of WAMZ Summit Meetings could be a contributing factor to the slow progress of the WAMZ integration agenda.

Inter-governmental rather than supranational decision-making process

The reluctance of the Member States of the WAMZ to confer supranational powers on WAMI, the implementing institution of the WAMZ, can be viewed as a sign of a lack of total commitment to the WAMZ agenda. It has also inhibited the work of the Institute
on some levels, unlike the EU Commission and the UEMOA Commission; WAMI cannot enter into agreements or take binding decisions on behalf of the Member States of the WAMZ.

**Unanimity rule/consensual decision-making process**

Decision-making by consensus appears to be constraining the progress of the WAMZ integration agenda. A resolve to make decisions solely by unanimous consent has been known to lead to stalemates and delay decision-making until dissenting members are persuaded, using strategic approaches, to agree with the majority. Replacing unanimity with majority rule or the qualified majority rule as practiced by the EU\(^33\) is regarded as a sign of integration, meaning countries are willing to accept even the policies they oppose\(^34\).

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\(^33\) which involves 55 percent of the member states representing 65 percent of the bloc's population.

\(^34\) [https://worldview.stratfor.com/article/eu-and-unanimity-trap](https://worldview.stratfor.com/article/eu-and-unanimity-trap)
Following the challenges highlighted in the preceding chapter, an enduring monetary union in the sub-region would need to take on board all or most of the under listed issues.

Deepening of Trade Integration

Accelerating the pace of trade integration among member countries is very critical towards moving the sub-region to the level of monetary union. Greater trade integration would promote real convergence and reduce cross-border price differentials. The current level of intra-regional trade is about 3.0 per cent of total trade in the Zone, unlike in the Euro Zone where in 2017 intra-regional trade accounted for about 64.0 per cent of total trade. Intra-regional trade has the potential benefits of increasing the usage of various national currencies among member countries, and therefore, helps to discover the true exchange rates of these currencies, which could substantially support the determination of exchange rate mechanism for the Zone. A binding constraint to improvement in trade relationship among member countries is the similarity in production structure, as most countries are producers of primary commodities. For example, Nigeria depends largely on crude oil, while Ghana relies heavily on cocoa and gold. Liberia, Sierra Leone, and Guinea deal mainly in iron ore and bauxite without adding much value to these commodities. Considering this, the
pace of industrialization must be enhanced in these countries to stimulate trade. Besides, it is commendable that most of the countries have adopted CET and ETLS, it is equally imperative to ensure the full implementation of these protocols, while simultaneously ensuring that non-tariff barriers are not introduced to vitiate the gains of CET and ETLS.

**Synchronization of Business Cycle**

The sustainability of a monetary union is subject to the capacity of Member States to meet the Optimum Currency Area criteria; therefore, it is necessary for member countries to address the challenge of asymmetric shocks. The more synchronized business cycles are, the smaller is the cost of giving up an independent monetary policy. A highly synchronized business cycle among member countries would make the monetary policy conducted by the common central bank a close substitute for the country’s own independent monetary policy. If the economy’s business cycle is, however, weakly correlated (or, worse, negatively correlated) with the union’s cyclical output, it will pose a challenge for the conduct and effectiveness of monetary policy.

The major source of non-synchronization in business cycle is the nature of production structure of Member States, with Nigeria having the heaviest weight in the aggregate economy of the sub region. Nigeria is an oil exporting economy with oil accounting for about 95 percent of foreign exchange earnings, while the remaining member countries are oil-importing with implication that movement in the price of crude oil has different impact on the economies of Member States. One of the means to achieve reduction of asymmetric shocks is for Member States to pursue programmes that
would accelerate the diversification of their economic base. Diversification of production base should not only be in terms of number of products that are produced, but it should equally include improvement in the value chain of various products. Such a process would help to build resilience and reduce the vulnerability of the sub-region to shock in the prices of primary commodities, thereby enhancing the effectiveness of monetary policy in addressing shocks in the sub-region.

*Improvement in Infrastructure*

At the root of the poor intra-regional trade in the Zone is the deplorable and weak infrastructure base, particularly transportation infrastructure. Most of the countries are not directly linked by air, while transnational rail lines are virtually absent. The authorities in Member States should renew commitment to building infrastructure, particularly road and rail lines that connect the countries with a view to easing movement of goods and services. Soft infrastructure that could increase the ease of doing business should also be considered. Some of the issues involve simplification of business registration procedures, reforms of port clearing activities, reform in legal and regulatory activities, and improvement in security. The whole process would strengthen the macroeconomic environment; enhance investor confidence with a positive spillover on economic activities, including trade.

*Deepening of Financial Integration*

Deeper integration of the financial sector in the WAMZ is required to ensure a hitch free take-off of the proposed monetary union. This is necessary, among others, to enhance monetary policy transmission
through the convergence of short-term interest rates, with a view to having a balanced and homogenous impact on liquidity conditions in Member States. A fair degree of progress has been recorded in this regard, as the Zone has initiated programmes and schemes including liberalization of capital accounts, cross-listing of stocks, regional currency convertibility/quoting and trading in WAMZ currencies, harmonization of banking supervision practices, and cross-border payments system. In addition, there has been a phenomenal increase in cross-border activities, as well as regional capital flows into the WAMZ in recent years, suggesting that the financial markets in the Zone are on the integration path. This notwithstanding, efforts should be intensified to remove all impediments towards full integration, which would require bold initiatives in a number of areas. Among others, there is a need to scale up the level of stock and bond markets across the Zone, to provide viable options for raising long-term funds, thereby reducing banking sector dominance in the Zone's financial system. The capital market needs to be fully developed across the Zone to provide the much-needed catalyst for financial integration of the WAMZ. In a related manner, the non-bank financial institutions such as insurance companies, pension funds, finance houses and microfinance institutions should be assisted to increase their contribution in the overall financial ecosystem. Furthermore, ongoing initiatives to upgrade the payments system across the Zone should be intensified, while efforts aimed at linking payments system should be given desired attention to facilitate inter-operability.

**Statistical Harmonization**

The importance of a uniform statistical measure for countries in a monetary union cannot be treated lightly.
An important lesson in this regard can be learnt from the Greece crisis. Although excessive leverage could be the proximate cause of the Greece crisis, the remote cause could be traced to a faulty statistical base as the true position of Greece debt, at the time of her admission to the European Union was shielded by statistical inconsistencies. As such, the framework for statistical implementation in the proposed WAMZ should be anchored on internationally acceptable standards like the System of National Accounts (SNA 2008), the IMF Government Finance Statistics Manual (GFSM 2014), Balance of Payment Manual (BPM6) and Monetary and Financial Statistics Manual (MFSM 2016). Member states should strive to faithfully implement the structural benchmarks under the Abuja Action Plan by ensuring the framework in concepts, definitions, classification, timeliness, periodicity and accessibility in the production of the relevant macroeconomic data. With respect to national accounts, it is commendable that Nigeria and Ghana have transited to SNA 2008 and have equally commenced the production of annual and quarterly GDP estimates based on ISIC Revision 4. Other countries of the sub region should endeavor to keep pace with these countries, as all the countries should also have in focus the need to migrate to SNA 2008. This, however, requires the availability of resources for regular censuses and surveys aimed at updating establishment and enterprise registers in the various sectors of the economy.

Ratification and Domestication of WAMZ Statues by Member States

The Zone has recorded giant strides in enacting a number of statues to ensure the successful launch of the monetary union. The statutes include The
Agreement of the West African Monetary Zone, Stabilization and Cooperation Fund, The West African Central Bank (WACB) Statute, The Statute of the West African Supervisory Authority (WAFSA), The Statute of the West African Monetary Zone Secretariat, Banking Statute of the WAMZ, Single Economic Space and Prosperity Agreement, and The Model Fiscal Responsibility Act. These instruments must be ratified and incorporated into national laws before the monetary union can commence to avoid constitutional issues. For example, the constitution in some of the countries of the sub region gives explicit power to the central banks to issue legal tender currency, suggesting that issuance of Eco by the proposed regional central banks could run at variance with the tenets of the constitution. As such, it is expedient to fast track the ratification and incorporation of the various statues into the national laws of member countries, as emphasized in the Banjul Action Plan (BAP).

Deepening the Involvement of the Private Sector in the Integration Process
While the role of public institutions such as WAMI and central banks is very crucial in anchoring the integration process, it is incumbent to recognize that the eventual owner of the proposed currency is the private sector. Against this perspective, it is absolutely compelling to bring the private sector on board, particularly at the conception stage in order to lay a strong foundation for the monetary union. Drawing from the experience of the European Union, it was the private sector institutions and trade associations that were in the fore of the regional integration agenda and indeed designed the types of laws and regulations that enhanced trade and promoted the acceptability of the Euro before the bureaucrats joined the train. Similarly,
the strong involvement of the private sector has been one of the key success factors in the integration of the Asia and the Pacific. For the WAMZ therefore, the private sector could play a catalytic role by collaborating with the existing public institutions to accelerate the pace of integration. The sector could provide the required leverage to propel growth to a new height, while simultaneously ensuring a more balanced distribution of growth within member countries. This could be achieved through a number of channels. The sector can make significant impact through trade and equity investment in infrastructure, more so, when consideration is given to budget constraints by various governments in the sub-region. Some infrastructure projects such as transnational highways and rail lines are critical big-ticket transactions that could pose considerable strain on the resources of various governments of the sub-region and as such, it would be germane for governments to focus more on providing the enabling environment for the private sector to thrive. Furthermore, it is well entrenched in both theoretical and empirical literature that the private sector remains the most efficient channel for allocation of resources and an enduring source of expansion in economic activities. More fundamentally, it is noteworthy that there are many success stories of public and private sectors partnership projects in countries of the sub-region, it would therefore be a step in the right direction to replicate such stories at the level of the sub-region. To achieve this, public policies should examine some critical pillars such as elimination of all kinds of legal and regulatory challenges, with a view to addressing the concerns of institutional investors and commercial lenders and ultimately enhance the prospects of private investment. In addition, relevant policies should be put in place to redirect investments
into smaller economies within the Zone, and to identify the desirable growth path for the entire sub-region. This, of course, should bring on board the new paradigm of inclusiveness and environmental sustainability, as well as the type of the PPP models that could be replicated across countries of the sub-region.

**Strengthen Relationship with Development Partners**

It is a truism that regional monetary integration should be initially driven by domestic aspiration, nevertheless, an enduring monetary union must accommodate the interest of many stakeholders, most especially external development partners. This is especially important for WAMZ in which former colonial masters like the European Union (EU) and other international organization have had significant influence in its structure and evolution. Taking the EU for instance, based on history and level of success, it has always been a role model for regional bloc across the globe. Consequently, the EU always serves as a reference point in terms of both institutional and policy framework. The WAMZ therefore, needs to adopt most of the elements of the EU framework like legal provisions, institutions, and policies. Even though the motivation is not to replicate EU, but closer collaboration could help to strengthen the proposed monetary union. A handy reference here is the significant contribution of France, now in EU, to the formation of UEMOA. The willingness of UEMOA to maintain monetary relationship with France contributed to the establishment of Franc CFA Zone. The establishment of the Euro Zone has further enhanced the reach of the CFA Franc, as it is not only linked to the France Treasury, but to the European Central Bank and the *Euro.*
In light of this, WAMZ should endeavor to strengthen partnership and collaboration with established and reputable monetary union. The EU in particular has always indicated her readiness to support emerging monetary unions in various parts of the world, most especially in Africa. WAMZ could benefit from the experience and facilities of EU in important areas such as building regional markets, facilitation of business developments, improvement in regulatory environment, strengthening of productive capacities, mobilization of capital and linking of regional infrastructural networks.
The integration pathway of the WAMZ has been fairly bumpy, but it is without gainsay that a good level of milestone has been achieved, due largely to strong determination and tenacity of purpose of principal stakeholders, most especially, the West African Monetary Institute (WAMI). One of the key issues is the scanty information on the integration agenda of the Zone within public domain, despite its launch on December 15, 2000. Activities were mapped towards the realization of the WAMZ agenda, achievements have been recorded, to a large extent, in the face of various constraints, but challenges remain. Literature on the WAMZ, its activities, achievements and impediments have been scanty and not much is known about the Zone in promoting regional integration in the six West African states and in the ECOWAS. Therefore, it became necessary and germane to document the impact, relevance and challenges of the WAMZ on the ECOWAS regional integration agenda. This is with a view to eliciting the interest of policymakers and stakeholders on the compelling need to address the critical challenges and provide a good leverage to move forward in achieving an enduring monetary union for the sub-region.

The broad objective of writing this book, therefore, is to document in precise and apt way the core issues of the journey to regional integration in the West African Monetary Zone (WAMZ). Specifically, the book examined
the achievements of the WAMZ, the impediments and the way forward to monetary and economic integration in the Zone.

With respect to the success story, the WAMZ integration agenda has recorded laudable achievements in many critical areas, including facilitation of robust macroeconomic framework in the Zone, initiation of statistical harmonization programme in member countries, anchoring the deployment of improved payments system framework, capital markets integration, banking sector integration, establishment of the West African College of Supervisors, and compliance with ECOWAS trade-related protocols and conventions. In a related dimension, harmonization of banking laws and framework is ongoing.

The pursuit of the ultimate goal of the union has not been without some challenges, as is the case with other regional integration blocs globally, culminating in the shifting of the deadlines on a number of occasions to more than 4 or 5 times, because the level of macroeconomic convergence was not sufficient for the launch of the WAMZ monetary union. The multiple postponement can be traced to the inability to meet the nominal benchmark criteria due to macroeconomic imbalances, fiscal dominance, lack of harmonized monetary policy framework, the global financial and economic crisis of 2007/8, slump in the prices of primary export commodities and the outbreak of the Ebola Virus Disease in 2014/15. The other challenges stem from non-convergence on real or structural parameters such as, inadequate infrastructure, unsatisfactory level of ratification and domestication of WAMZ treaties, conflict of laws and jurisdictions, threat
to national sovereignty, poor political will and public support.

To overcome these challenges and chart a course for an enduring monetary union in the Zone, some issues should be given serious and urgent consideration, and these include deepening of financial and trade integration, synchronization of business cycle in the Zone, improvement in infrastructure, further improvement in the payments system, statistical harmonization and ratification and domestication of WAMZ statues by WAMZ member countries, and deepening the involvement of the private sector in the integration process.

Without prejudice to the forgoing, it is pertinent to state that the issue of macroeconomic stability cannot be compromised among the pillars of an enduring monetary union. All policies and structural reform programmes should be geared towards ensuring macroeconomic stability, hinged on a fiscal policy stance that is stability oriented and guarantees that future public indebtedness is within sustainable levels.

Besides, a sound institutional framework and structural conditions conducive for productive growth must be put in place, while the transformation of the structure of production to the level where the secondary sector contributes more to economic growth is a sine qua non. Country-specific domestic policies must strive to improve productivity and create an institutional framework that promotes inclusive growth, especially the type that supports businesses in the manufacturing sector. This type of growth requires linking investments with information and communication technology (ICT)
with the ultimate goal of achieving technological progress.

On a final note, Nigeria’s GDP share (80.4 per cent) in the WAMZ is huge and when combined with Ghana (91 per cent of the Zone’s GDP), the two countries become the natural leaders. Nigeria is the country anchor to the WAMZ, just as Germany is the Euro Zone country anchor. For the WAMZ to emerge, Nigeria and Ghana, therefore, should act as the anchors and be able to carry along the smaller economies of the sub-region. Consequently, when the economies of Nigeria and Ghana are not in the right conditions to play the role that Germany and France are playing in the Euro Zone, the Eco would have terrible hiccups. Nigeria recently exited economic recession and aggressively pursuing its economic diversification programmes, while Ghana is exiting the Extended Credit Facility (ECF) in December 2018. Once these two countries get their economic policy and fundamentals in the right direction, they are better positioned to shoulder the emergence of Eco like Germany and France did for the Euro.
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