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EVOLUTION OF MONETARY INTEGRATION: CASE OF THE WEST AFRICAN MONETARY ZONE

Dr. (Mrs) Ngozi E. Egbuna¹

Abstract

This paper attempts to examine the challenges of monetary integration in the West African Monetary Zone (WAMZ) during the period 2001-2017, within the framework of the Economic Community of West African States (ECOWAS) Monetary Cooperation Programme (EMCP). The paper recounts the evolution of monetary integration in the WAMZ by reviewing issues that impedes the attainment of the goals of the WAMZ and assessing progress and achievements made. The paper draws on the conclusions of previous studies on ECOWAS and WAMZ monetary and economic integration programmes to present an overall view of the journey, so far, toward the introduction of a single currency in the Zone. The findings of this paper suggest that a lot of gains have been made on the WAMZ programme. However, the Zone continuous to face challenges bordering on asymmetric shocks and fiscal dominance. Low level of trade and weak policy implementation commitment in the Zone also adversely impacted the integration process. The paper concludes that more should be done to ensure that the required building blocks are put in place prior to the launching of the single currency and continued pursuance of convergence ex-post.

JEL Classification: E45, E52, F15

Keywords: Monetary Policy, Monetary Union, West African Monetary Zone

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1. INTRODUCTION

The successful introduction of the *euro* currency by the European Union in 1999 reignited interest in monetary union in many regions of the World, including West Africa. It is argued that the main desire for monetary union is motivated by the opportunities to foster deeper intra-regional trade and strengthen solidarity. Single currency stimulates trade, improves economic efficiency by eliminating transactions cost relating to exchanging currencies, conserves foreign exchange reserves and eliminates risks associated with uncertainties in the fluctuation of exchange rates. (Masson and Pattillo (2004).

The fundamental basis for the creation of a monetary union and introduction of a single currency in Economic Community of West African States (ECOWAS) is enshrined in Articles 3 and 4 and 51 to 55 of the ECOWAS Treaty of 1975, revised in 1993. Determined in their efforts to achieve the goals of monetary union and single currency, the Authority of Heads of State and Government of the Member States, shortly after the establishment of ECOWAS in May 1975, created the West African Clearing House (WACH), the first initiative towards monetary cooperation in ECOWAS.

The EMCP was adopted in July 1987 in Abuja during the Tenth Session of the Conference of Heads of State and Government. The objective of the EMCP was to introduce a single currency in ECOWAS, as well as adoption of appropriate and harmonised policy frameworks to attain macroeconomic convergence under a unified management system. Member States were required to achieve prescribed convergence criteria.

WACH was setup to serve as a multilateral payment facility to promote trade within West Africa, and as a window through which Member States could use their national currencies for current and capital account transactions in the region, thereby conserving the use of foreign exchange reserves and minimizing transaction costs. The clearing mechanism depended on the guarantee by Member States to convert their domestic currencies freely into the West African Unit of Account (WAUA) to finance eligible transactions.

In order to complement the effective functioning of WACH and further facilitate payments and settlements in the region, the ECOWAS Travelers' Cheque was introduced in 1998, and circulation of the Cheques began in 1999. The Cheques were issued by the Central Banks in ECOWAS and denominated in *WAUA*. The Cheques were in five denominations comprising: 1 *WAUA*, 10 *WAUA*, 20 *WAUA*, 50 *WAUA* and 100 *WAUA*. A unit of *WAUA* was equal to 1 Special Drawing Right (SDR) of the International Monetary Fund, which currently exchanges at 1.37 dollar. These Cheques were convertible into the national currency of any Member State. The objective was to speed up the process of creating a single monetary zone and, ultimately, improve intra-ECOWAS trade.

However, after several years of implementation, performance of the WACH fell short of the desired objective. The volume of transactions channeled through the clearing mechanism increased, reaching a peak of *WAUA* 224.4 million in 1984, but dwindled thereafter, to *WAUA* 1.5 million in 1999. The launch of the ECOWAS Travelers' Cheque regenerated the level of activity temporarily in 2002 and 2003, but collapsed in the subsequent years following the emergence of speculative dealings in the instrument. Currently, no commercial transactions are conducted through the WACH mechanism.

WACH encountered many challenges, including, weakness and diminishing volume of intraregional trade resulting in difficulties in the payment system. These difficulties arose from the nature of transactions covered by the House, namely: (i) intergovernmental subsidies; (ii) intergovernmental lending; (iii) any payment not within the category of current international transactions, as defined by the IMF. Moreover, transactions carried out within UEMOA/WAEMU (West African Economic and Monetary Union) and payments by ECOWAS member countries that were not members of WACH were excluded. Although the volume of transactions covered was low, significant debit positions

emerged and constantly increased. Furthermore, the differences in the formulation of regulations, based on exchange arrangement, contributed to the difficulties faced by WACH.

The Structural Adjustment Programmes (SAP) pursued by the Member States of ECOWAS in the 1990s resulted in the liberalisation of exchange control policies and structural macroeconomic reforms. These developments and the delays in clearing and settlement associated with WACH, coupled with the relative improvement in the payments system in member countries encouraged the business community to use the established private financial institutions rather than the ECOWAS Multilateral Clearing Mechanism.

In 1996, WACH was transformed into the West African Monetary Agency (WAMA), because of the non-achievement of the purpose for which it was established. WAMA, the successor institution, is an autonomous and specialised agency of the ECOWAS Commission, charged with the responsibility of monitoring, coordinating and implementing the ECOWAS Monetary Cooperation Programme (EMCP) geared towards the introduction of a single currency in ECOWAS.

EMCP suffered several postponements—specifically, in 1992, 1994 and 2000, due mainly to non-achievement of convergence criteria. By 1999 however, it had been realised that the pace of implementation of the EMCP, especially the establishment of a single monetary zone, would be challenging. Some major obstacles to the successful implementation of the programme included: limited commitment, non-uniformity in the adoption of the required macroeconomic framework and minimal policy coordination and harmonization. The recognition of these problems necessitated the Authority of Heads of State and Government of ECOWAS, at their 22nd Summit in Lome, Togo, in December 1999, to adopt a Fast-Track Approach towards the achievement of the EMCP. This led to the signing of the WAMZ Agreement, the declaration of the WAMZ in Accra, Ghana, in 2000, as well as the establishment of the West African Monetary Institute (WAMI) to commence the implementation of the WAMZ programme in March 2001. However, after several years of implementation, characterised by some achievements and several challenges, resulting in inadequate state of preparedness, the proposed launching of the single currency in the WAMZ on the scheduled dates were successively shifted. The WAMZ programme suffered four postponements (in 2003, 2005, 2009, and 2015) since its commencement

Due to the protracted delay in achieving some goals of the WAMZ and by extension the EMCP, the ECOWAS Authority, at an Extra-ordinary Summit in October 2013, in Dakar, Senegal, directed the setting up of a Presidential Taskforce to determine the status of the implementation of the EMCP, identify constraint factors, and recommend measures for the realisation of ECOWAS Single Currency Project by 2020. The Presidential Task Force recommended the abolition of the Two-Track Approach and called for the establishment of an ECOWAS Monetary Institute (EMI) by January 2018 to expedite the single currency mission. Acting on the recommendations of the Presidential Task Force, 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 ECOWAS Monetary Institute (EMI) in 2018.

From the account of events alluded to above, the objective of this paper is to discuss the WAMZ monetary integration issues and bring to the fore the critical challenges that impeded the achievement of the goals of the WAMZ.

Following this introduction, section II sets out the theoretical literature on monetary union. A chronology of WAMZ monetary integration programme is discussed in section III, while its implementation status as at end-2017 is covered in section IV, including achievements and challenges. Lessons of experience are discussed in section V and Section VI concludes the paper.

2. THEORETICAL FRAMEWORK OF MONETARY INTEGRATION

2.1 Optimal Currency Area (OCA)

The Theory of Optimum Currency Areas (OCA) was developed by Mundell (1961), and improved upon by McKinnon (1963), and Kenen (1969). An OCA refers to the optimal geographical area for a single currency, or several currencies, whose exchange rates are irrevocably pegged. The theory of OCA sets out specific conditions or criteria that are pre-requisite for the formation of a credible monetary union. These conditions include a high degree of trade openness and inter-dependence among members of the union, similarity of external shocks, a high degree of price and wage flexibility, high degree of mobility of the factors of production, diversification of production and consumption structure, financial integration, fiscal integration, and a high degree of political integration (Mundell, 1961). If these conditions are satisfied, then individual countries would have alternative adjustment mechanisms for domestic stabilization when faced with asymmetric shocks. This also implies that giving up autonomy over their monetary and exchange rate policy would not be costly. Thus, monetary integration would be beneficial to the countries. It has also been argued that an extensive institutional framework that handles both political and technical issues is also needed for the formation of a monetary union (Cohen (1993)).

A variant of the OCA theory is the convergence of various macroeconomic indicators among the participating countries, viewed as criteria for membership, Debrun *et al*, (2010). It is argued that the convergence criteria are not well grounded in theory but simply monitors indicators that countries within a union have themselves adopted as entry criteria. For instance, the West African Monetary Zone (WAMZ) considered the achievement of the primary convergence criteria as part of its assessments for countries readiness for monetary union.

The traditional theory of OCA tends to be rather pessimistic about the possibility for the countries to join a monetary union at low cost. The major critique on OCA as put forward by Grauwe (2014) is the relevance of some of the preconditions for the establishment of an OCA. The criticism has been formulated at two different levels. First, one may question whether the differences between countries are important enough to represent a hindrance to monetary unification. Second, whether the exchange rate instrument is effective in correcting for the differences between countries. The criticisms are much less pessimistic about the costs of forming a monetary union and are less forbidding for two reasons. First, the ability of exchange rate changes to absorb asymmetric shocks is weaker than the traditional OCA theory puts it. On the contrary, exchange rate changes usually have no permanent effects on output and employment. Secondly, countries that maintain independent monetary and exchange rate policies often find out that the movement of exchange rates become a source of macroeconomic disturbance, instead of being instruments of macroeconomic stabilization.

2.1.1 BENEFITS AND COSTS OF MONETARY INTEGRATION

2.1.1.1 Benefits of Monetary Integration

Countries adopt monetary union because it offers numerous macroeconomic benefits. The benefits include stable exchange rate, reduced external volatility, stable macroeconomic environment, increased intraregional trade, lower transactions costs (as currency conversion costs are reduced), more financial integration, and convergence among participating countries. Aigokhan (1993), Obasaki and Onwioduokit (1999), Corden (1994) and Masson *et al* (2001) also corroborate similar assertions and argued that the benefits of single currency broadly comprise four main elements, namely: reduction in transactions cost, reduction of exchange rate risk, increased transparency in price comparison and the political gains of closer union and cooperation. Eliminating national currencies and adopting a single currency is expected to yield economic efficiency as well as welfare gains for the participating countries.

Improved Cross-border Trade

The introduction of a single currency improves trade among the Member States in a monetary union, relative to the rest of the World. WAMI (2017) asserts that in the WAMZ, where a single currency is yet to be introduced, trade among the Member States is estimated at 2.6 percent in 2016, while in the UEMOA, where a single currency (CFA) is used, trade among them is estimated at 16.9 percent in 2016.

Rose (2000) asserted that intra-trade transactions among Member States using a single currency are relatively higher than those without. To illustrate this assertion, intra-WAEMU (with single currency) trade relative to the rest of the world during the period (2010-2016) averaged 10.4 percent, while the intra-WAMZ (without single currency) trade relative to the rest of the world during the same period averaged 1.3 percent. The larger trade relations in the WAEMU can be explained by the fact that these countries are in a monetary union and share the same currency, adopt a common trade policy with a common external tariff, and observes free movement of goods and labor within the union.

Conservation of Foreign Exchange Reserves

A monetary union tends to conserve foreign exchange reserves, since Member States would not need to keep reserves for intra-union transactions or exchange rate management. An assessment of the gains from currency convertibility, WAMI (2016) shows that, at the current level of formal intra-WAMZ trade of about 2.6 percent, a total of US\$463.5 million could be gained from quoting and trading in WAMZ currencies before the introduction of ECOWAS-wide single currency. And, this would be in addition to other benefits such as reduction in transactions costs and improved intra-regional trade.

Member States could also benefit from using a common currency by pooling their foreign reserves for common use. Since it is unlikely that all Member States' external position would be at a deficit at the same time, the pooling of the reserve would economize reserve usage, keeping the reserve level buoyant, and thereby boost the value and stability of the exchange rate. The stability of the exchange rate would in turn encourage investment and ultimately stimulate economic growth.

Minimization of Transactions Cost

Within a monetary union, the standard function of money as a medium of exchange will be more efficient, as the cost of conversion and forward cover under a flexible exchange rate system are eliminated, thereby reducing transactions cost. A single currency would imply that exchange rate between the single currency and the national currencies will be eliminated.

Benefits of International Currency

According to De Grauwe (2014), when countries form a monetary union, the new currency is likely to be more influential in international monetary relations than the sum of the individual national currencies prior to the union. When a currency is used internationally, the issuer of that currency obtains additional revenues. For example, in 1999 more than half of the dollars issued by the Fed were used outside the USA. This situation has the effect of more-than-doubling the size of the balance sheet of the Fed compared to a situation in which the dollar would only be used domestically. It follows that the Fed profit are also more-than-doubled. Since these profits goes to US Government, US citizens enjoy the benefits of the world-wide use of the dollar. If the anticipated single currency in ECOWAS graduates to the status of international convertible currency, the ECOWAS citizens will enjoy similar benefits.

Elimination of Exchange Rate Risk and Promotion of Economic Growth

Consistent with the neoclassical growth model, the elimination of exchange risk will lead to increase in economic growth as well as economies of scale. Monetary union will bring about reduced exchange rate

risk, a decline in systemic risk and ultimately lower interest rate. This will lead to increased investment and eventually increased output. This analysis features prominently in the European Commission report “One market, one money” (1990) which in turn was very much influenced by Baldwin (1989). A decline in real exchange rate uncertainty, due to the introduction of a common currency, for example, can reduce adjustment cost emanating from real exchange rate movements. As a result, the price mechanism becomes a better guide to make the right economic decisions. Eliminating the exchange risk reduces uncertainty and increases welfare of the society.

Transparency of Price Comparison and anti-Inflationary Reputation

It is argued that single currency would ease price comparison; hence, the consumer will gain from greater competition, resulting in enhanced price similarity (adjusted for quality differences) and reducing the scope for price discrimination between Member States. By extension, a country with a weak reputation for high inflation may improve her reputation by forming a monetary union with a country (ies) with good inflation reputation.

2.1.1.2 Costs of Monetary Integration

Despite the benefits associated with monetary union, there are also costs associated with it. Monetary union limits the flexibility of individual participating countries to adjust to external shocks using monetary policy instruments.

Loss of Independent Monetary Policy

The main cost of single currency relates mostly to the loss of independent monetary policy and limited flexibility in the use of monetary policy instruments to respond to asymmetric shocks. With the adoption of a single currency, each Member State will relinquish the power of sovereign independent monetary policy to a supra national common Central Bank. In addition, exchange rates between countries can no longer adjust in response to regional problems.

Loss of Identity Associated with National Currency

Introduction of a single currency would lead to loss of national identity associated with currencies. Cultural heritage and historical identity inscribed on some national currencies could be overshadowed by the new common currency and the eventual loss of national character portrayed by currencies.

Limited Ability to Finance Budget Deficit

Entry into a monetary union constraint's a Member State's ability to finance its budget deficit. Monetary union imposes fiscal discipline by restraining any Member State, borrowing from its central bank to finance fiscal deficit. While this may be beneficial on one hand, it also narrows fiscal space thereby limiting flexibility in responding to fiscal exigencies.

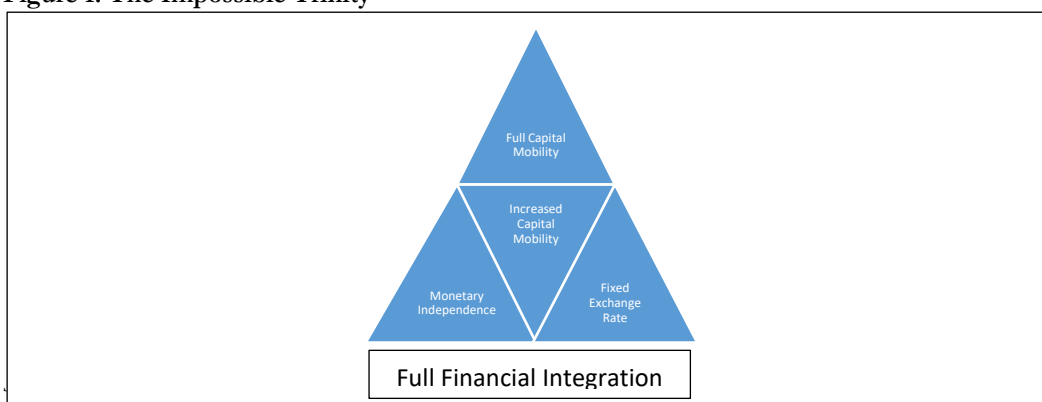
2.2 The Impossible Trinity

The theory of the Impossible Trinity provides additional arguments for the desirability of monetary union. This principle asserts that only two of the following three features are mutually possible (simultaneously?): full capital mobility, independent monetary policy, and a fixed exchange rate (Wyplosz, 1997). Greater monetary independence could allow policymakers to stabilize the economy through monetary policy implementation, thus leading to stable and sustainable economic growth. However, monetary authorities could abuse their autonomy to monetize fiscal debt, and end up destabilizing the economy through high and volatile inflation. Exchange rate stability could enhance price stability by providing an anchor, and mitigate uncertainty, thereby fostering investment and international trade. Also, during crisis period, maintaining a pegged exchange rate could increase the

credibility of policymakers and thereby contribute to stabilizing output movement. However, greater levels of exchange rate stability could also rid policymakers off the choice of using exchange rate as a tool to absorb external shocks. Hence, the rigidity caused by exchange rate stability could not only enhance output volatility, but also cause misallocation of resources and unsustainable growth.

The Impossible Trinity is illustrated in Figure 1. Each of the three sides of the triangle depicts a potentially desirable goal, yet it is not possible to be on all three sides simultaneously. For example, the top vertex, labeled “full capital mobility” is associated with monetary independence and exchange rate stability. If a Central Bank chooses to have an independent monetary policy (the ability to set interest rates independently) and a fixed exchange rate, then free capital mobility would be abandoned. The left vertex, labeled “monetary independence”, is associated with monetary independence and financial integration. This implies, if the central bank chooses to have an independent monetary policy and free capital flow, then it must have a floating exchange rate system, that is, it cannot fix the exchange rates.

Figure 1: The Impossible Trinity



Furthermore, the right vertex, labeled “fixed exchange rate”, is associated with exchange rate stability (a pegged exchange rate regime), and financial integration, but no monetary independence. Thus, if the central bank chooses to have a fixed exchange rate and free capital flow, then it has to forgo the ability to set interest rates independently. Hence, the central bank will not have an independent monetary policy. In order to solve the impossible trinity puzzle, the European Union established the Common Market, irrevocably fixed exchange rates for euro area countries, and no monetary policy autonomy at the national levels for the countries that adopted the euro. In addition, the euro area countries’ exchange rates could fluctuate vis-à-vis the rest of the world.

3. CHRONOLOGY OF WAMZ MONETARY INTEGRATION: THE JOURNEY SO FAR

The WAMZ programme was borne 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 the Economic Community of West African States (ECOWAS) Authority of Heads of State and Government, culminating in the establishment of WAMZ. The Two-Track Approach was intended to merge the two monetary integration blocs i.e. WAEMU and WAMZ, after the fulfillment of the minimum convergence requirements for the formation of a monetary union in ECOWAS.

Within the framework of the Two-Track Approach, in pursuit of the monetary integration goals of ECOWAS, the WAMZ project was guided by ten programme areas, anchored on five strategic pillars.

The programme areas were:

- monitoring and reporting on macroeconomic convergence;
- statistical harmonization
- creation of customs union;
- development of zonal payments and settlements systems for cross border transactions;
- financial sector integration;
- ratification and incorporation into national law of WAMZ legal instruments;
- activation of WAMZ institutions i.e. WAMZ Secretariat, West African Financial Supervisory Authority (WAFSA), as well as Stabilization and Cooperation Fund (SCF),
- sensitization;
- preparation towards the introduction of eco; and,
- promoting regional development.

The five strategic pillars are:

- macroeconomic convergence;
- trade and regional integration;
- financial integration;
- payments system infrastructure; and,
- institutional capacity building.

The WAMZ monetary union was initially scheduled to be launched in 2003, barely two years after the commencement of the implementation of the programme. The proposed launch was postponed to 2005, due to non-achievement of the convergence criteria and slippage on legal and institutional benchmarks. In 2005, the mandate of WAMI was redefined and the Institute's work programme expanded to include economic and trade integration issues. WAMI has since been pursuing monetary and economic integration in the WAMZ. Since the establishment of the WAMZ, the Member States have not consistently met the minimum convergence criteria and the structural benchmarks required for the launching of a monetary union, resulting in four postponements and the delay in the proposed merger of the two blocs.

In view of Decision A/DEC.2/7/87 on the adoption of monetary integration programme that provides for the creation of a single monetary zone in ECOWAS and the need to speed up and deepen integration in general, especially monetary and economic integration, the ECOWAS Secretariat, which is the implementing agency of the Community, was transformed into a Commission in June 2007 and empowered through the supplementary Protocol A/SP/06/06 to strengthen supranationality, by amending the revised ECOWAS Treaty (1993).

To this end, the Commission was directed by the ECOWAS Authority to re-examine the EMCP. The re-examination of the EMCP resulted in the preparation of a roadmap for the ECOWAS Single Currency Programme. It 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.

Mindful of the Supplementary Act SA/12/2011, instituting a Macroeconomic Convergence and Stability Pact between the ECOWAS Member States to ensure the creation of an ECOWAS Single Currency, and in a bid to intensify efforts to realise the long-standing monetary integration goal of ECOWAS, the regional Authority at its Extraordinary Summit held on October 25, 2013 in Dakar, decided to establish a Presidential Task Force to oversee the creation of a single currency in ECOWAS by 2020. These reform measures were geared toward establishing an efficient, institutional and

organizational mechanism to improve monitoring and evaluation with a view to achieving macroeconomic convergence and stability in conformity with the roadmap for the single currency programme.

The Presidential 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 will 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, will 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. However, the Presidential Task Force, at its Fifth Meeting held in Accra, Ghana, in February 2018, decided to strengthen WAMA and transform it to play the role of the envisaged EMI.

The adoption of the Single-Track Approach implies endorsement of a linear model for monetary integration in the ECOWAS region, following the harmonization of the convergence criteria across the region as well as the adoption of joint multilateral surveillance mechanism for monitoring Member States' compliance with the prescribed convergence criteria and recently the preparation of convergence report in the region. Since the adoption of the Single-Track Approach to monetary integration, the ECOWAS Roadmap for the introduction of the single currency has become the new blueprint for the actualization of the goals of the ECOWAS Monetary Cooperation Programme.

The Presidential Task Force at its Fifth Meeting held in Accra, Ghana, in February 2018, reaffirmed its commitment to Agenda 2020 for the introduction of a single currency in West Africa. The Task Force adopted a gradualist approach to the introduction of the single currency, whereby the countries that satisfy the convergence criteria shall commence the union and the others will join as and when they meet the requirements.

4. STATUS OF THE WAMZ PROGRAMME AS AT DECEMBER 2017

4.1 The WAMZ Programme

As earlier stated, the WAMZ monetary union was initially scheduled to commence in January 2003, after a convergence process. Despite efforts by the Member States to meet the benchmarks required for the commencement of the monetary union, the launch date was postponed to July 1, 2005, due to the lack of macroeconomic and structural convergence. Following the postponement, Member States made considerable effort to improve on their macroeconomic performance. The Zone witnessed robust growth, while inflation moderated, and foreign exchange reserves improved. However, despite the gains made by Member States, 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.

The Abuja Action Plan (AAP) adopted at the Ninth Summit of the Authority in June 2009, provided a clearer direction for the WAMZ programme and activities for the period 2010-2014, and thereafter extended to 2020, from 2015. The AAP, like its forerunner, the Banjul Action Plan (BAP), provided a ten-point work programme to facilitate a successful launch of the union. The core activities include the achievement of convergence on key macroeconomic criteria; development of national and zonal payments and settlement system for cross-border transactions; statistical harmonization and database development; trade integration (free trade area and customs union); financial sector integration;

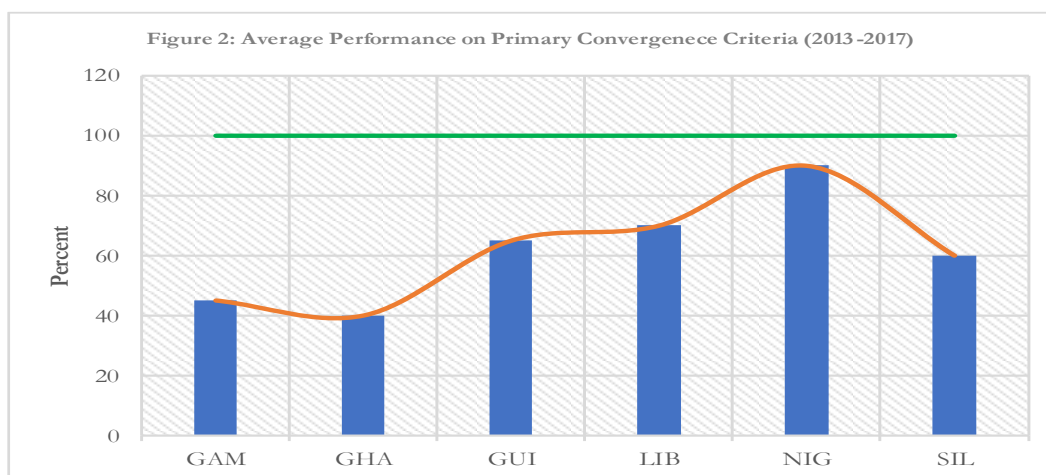
ratification of the WAMZ legal instruments; activation of the WAMZ institutions; sensitization; preparations towards the introduction of the eco and zonal programmes for promoting regional development and integration.

Following the slow progress towards the achievement of macroeconomic convergence especially in the wake of the global financial crisis, the Authority once again postponed the launch of the monetary union to January 1, 2015. In the face of another failure in meeting the minimum requirements for the launching of the monetary union by 2015, the launching of the ECOWAS monetary union was postponed to 2020. The assessment of the programme areas are as follows:

4.1.1 Programme Area I: Macroeconomic Convergence

On Programme Area I, that is, macroeconomic convergence criteria, none of the Member States met all the primary convergence criteria. The Gambia met three i.e. inflation, central bank financing of government fiscal deficit and gross external reserves but slipped on the fiscal deficit criterion. Ghana met two criteria, central bank financing of government fiscal deficit and gross external reserves and missed two i.e. inflation and fiscal deficit criteria. Guinea complied with three i.e. fiscal deficit, central bank financing of government fiscal deficit and inflation and did not meet gross external reserves. Liberia achieved two criteria i.e. fiscal deficit and gross external reserves, while it missed two i.e. inflation and central bank financing of government fiscal deficit. Nigeria met three criteria i.e. fiscal deficit, central bank financing of government fiscal deficit and gross external reserves but missed inflation criterion. Sierra Leone met two criteria i.e. central bank financing of government fiscal deficit and gross external reserves and missed two i.e. fiscal deficit and inflation. Figure 2 shows that no country has on average (2013-2017²) met all the primary criteria.

On secondary convergence, performance was relatively better over the years as all the countries



achieved at least half of the criteria always. Looking back, none of the Member States have satisfied all the primary criteria for more than two consecutive years, neither did any two or more countries meet all the criteria concurrently and consistently for two consecutive years, since the commencement of the WAMZ convergence process in 2001. Overall, performance on macroeconomic convergence has improved over time, but it is insufficient to form the basis for the launching of a monetary union.

² Data for 2017 are preliminary.

4.1.2 Programme Area II: Monetary Policy Framework for WACB

The monetary policy framework as well as tools, instruments and procedures for the proposed common central bank would require a single monetary policy framework i.e. whether inflation targeting, monetary targeting or any other appropriate framework, the exchange rate framework would also have to be determined, i.e. flexible or fixed exchange rate regime.

4.1.3 Programme Area III: Statistical Harmonisation and Database Development

The requirement to harmonise the relevant economic statistics comprising consumer price index, gross domestic product, balance of payments, government finance statistics, monetary and financial statistics among the Member States of the WAMZ, in terms of concepts, definitions, methodology, units of measurement, classification, compilation, coverage and periodicity of reporting, have not yet been fully achieved. However, some significant milestones have been accomplished over the years. For example, the compilation of the consumer price indexes, anchored on the framework of Classification of Individual Consumption by Purpose (COICOP) has been adopted across the Zone. However, coverage is limited to selected markets in the urban areas in most Member States. Balance of payments accounts are also being prepared in line with the IMF Balance of Payments Manual VI.

The Gross Domestic Product (GDP) is estimated using System of National Accounts (SNA) 1993, and the base-year updated to take account of current economic transformations as well as price developments in the Member States. Furthermore, some Member States have transited to SNA 2008. Ghana and Nigeria have fully met the required statistical harmonisation benchmarks, while The Gambia, Guinea, Liberia and Sierra Leone are making efforts to improve the national statistical architecture to meet the basic international comparable standards. With regards to database development, progress has been made and the construction may be concluded soon.

4.1.4 Programme Area IV: Zonal Payments and Settlement System

An efficient and up-to-date payments system infrastructure is fundamental to the conduct of an effective single monetary policy in an environment characterised by high level of currency outside the banking system. The payments system infrastructure in The Gambia, Guinea, Liberia and Sierra Leone that were in a rudimentary state prior to 2009, have been modernized and automated to facilitate payments and are working efficiently since 2015, to a level relatively comparable to what obtains in Ghana and Nigeria, which are at second and higher generation of payments and settlement system development. What is yet to be carried out is the interlinking of the national payments and settlement system, to bridge the inter-operability gap, in order to facilitate cross border payments and settlement.

4.1.5 Programme Area V: Trade Integration

All the Member States have signed the Protocol on the ECOWAS Trade Liberalisation Scheme (ETLS) and are implementing it relatively satisfactorily, despite some other administrative hurdles, such as non-tariff barriers, across the Zone. The ECOWAS Common External Tariff (CET), which envisages the establishment of a customs union in ECOWAS, has also been adopted and is being implemented by all WAMZ Member States, except Sierra Leone, due to technical issues it experienced. Free movement of persons, and the right to reside and establish are being observed across the Zone. Figure 3 depicts that none of the Member States is fully compliant with all the ECOWAS trade-related protocols.

In spite of the adoption of the regional trade integration commitments by the WAMZ Member States, intra-WAMZ trade relative to the rest of the world is estimated at about 2.6 percent in 2016, which falls far short of the 60.0 percent recorded by the European Union at the point of introducing the euro in

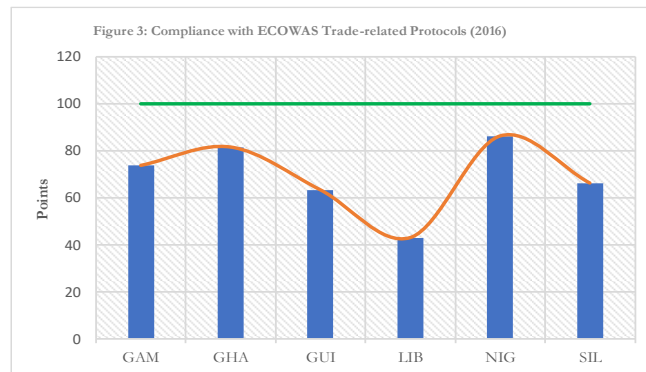
1999. The intensity of trade among the Member States is far lower than the desired average of about 50 percent, prior to transition to a currency union. WAMZ Trade Integration Report (2017) shows that the WAMZ Member States' status of compliance with the ECOWAS trade-related protocols stood at 68.9 points, while the WAMZ trade integration index, comprising intra-regional trade flows, financial environment, connectivity across transport modes and physical infrastructure averaged 44.11 points, on a scale of 100 points.

4.1.6 Programme Area VI: Financial Integration

The WAMZ Member States are at varying degrees of capital account liberalisation. The capital account practices in the WAMZ shows that The Gambia is the only country that fully liberalized capital account regime, while the others impose restrictions on capital flows.

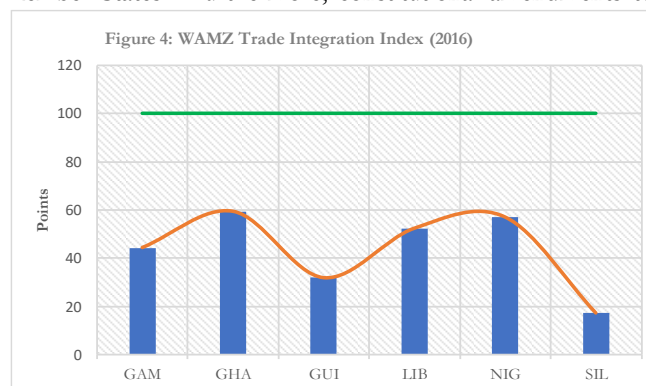
Quoting and trading in the WAMZ national currencies by Deposit Money Banks (DMB) remained limited. The low participation in the programme is partly due to the lack of mechanism for clearing and settlement of accumulated long positions.

Banking supervision and regulation in the zone continued to be centered on strengthening compliance with the revised 29 Basel Core Principles (BCPs) and migration to Basel II and III. In addition, while some countries (Ghana and Sierra Leone) have fully implemented the International Financial Reporting Standards (IFRS), others are at various stages of migration to the Standard.



4.1.7 Programme Area VII: Ratification of WAMZ Legal Instruments

After acceding to the WAMZ Agreement by all the Member States, only The Gambia, Guinea, and Sierra Leone had ratified it. The WAMZ legal instruments should be ratified by all Member States and incorporated into their national laws, where applicable, before the commencement of the monetary union, but this is yet to be done by Member States. Furthermore, constitutional amendments to accommodate change over from one's national currency to a supranational currency will need to be carried out in some countries to facilitate seamless transition to a new currency.



4.1.8 Programme Area VIII: Activation of WAMZ Institutions

The supporting institutions of the WAMZ comprising the West African Central Bank (WACB), WAMZ Secretariat and West African

Financial Supervisory Authority (WAFSA) have not yet been put in place while contributions to the WACB capital and Stabilization and cooperation Fund (SCF) have not yet been fully paid by all the countries.

4.1.9 Programme Area IX: Sensitization

Sensitization on the introduction of the single currency has remained dormant on account of successive postponements. The current level of sensitization is far lower than what is required to garner appreciation of the public and acceptability of the proposed single currency.

4.1.10 Programme Area X: Preparations toward introducing the eco

In order to achieve the objective of a successful transition from WAMZ national currencies to the eco currency, Member States would be required to implement a number of prior actions, many of which are yet to be carried out such as National Central Banks (NCBs) to prepare framework for dual pricing in national and eco currency; NCBs to prepare conversion facilities e.g. conversion calculators; preparation and publication of a changeover plan for the scriptural currency phase by the National Steering Committee; Commencement of operations of the WACB and the WAMZ Secretariat; definition of a strategy and the pooling of gross external reserves; harmonisation of instruments and procedures for the conduct of a single monetary and foreign exchange policy, among others.

4.2 Achievements

Since the creation of the WAMZ, and the establishment WAMI as an institution charged with the responsibility to carry out preparatory activities toward the establishment of a common central bank and introduction of a single currency, the Member States and WAMI have achieved significant milestones. These include the following:

Improved Macroeconomic Convergence

Macroeconomic convergence has improved in the WAMZ through the multilateral surveillance framework that is conducted twice a year. The Member States of the WAMZ meets regularly to peer review their macroeconomic performances and convergence against the prescribed convergence criteria and structural benchmarks for the establishment of a monetary union in the zone. This has resulted in better macroeconomic governance and progressive convergence of the economies across the zone. Most of the Member States consistently achieved three out of the four primary macroeconomic convergence criteria. However, the most challenging criterion to achieve by the Member States is the fiscal deficit-to-GDP.

Greater Statistical Harmonisation

The Member States have largely harmonised their statistics in terms of concepts, definitions, reporting standards and methodology for cross country comparison for macroeconomic convergence monitoring and evaluation. All the Member States have adopted Classification of Individual Consumption by Purpose (COICOP) in the compilation of consumer price index. System of National Accounts (SNA) of 1993 is being widely applied, while some Member States have upgraded to SNA 2008. Balance of payments is being compiled on the basis of IMF balance of payments and international investment position manual VI, while government finance, monetary, and financial statistics are prepared based on IMF international acceptable standards.

Improved Payments System

Payments system have been upgraded in the Zone. With the financial assistance obtained from the African Development Bank (AfDB) in the amount of (US\$30 million) to develop payments system in The Gambia, Guinea, Liberia and Sierra, payments system in these countries have been elevated to a higher level comparable to the ones obtained in Ghana and Nigeria. The project has been successfully completed and functioning effectively in the beneficiary Member States. Currently, efforts are being made in collaboration with development partners to interlink the RTGS of the Member States of the WAMZ to further facilitate cross border payments and settlement.

Enhanced Institutional and Human Capacity Building

Macroeconomic management capacity has improved in the WAMZ partly attributable to institutional capacity building for macroeconomic management, financed by the African Capacity Building Foundation (ACBF).

Improved Trade Governance

The Member States have institutionalized the WAMZ Trade Ministers' Forum which deliberates on obstacles to intra-regional trade and develop measures to mitigate them. Some Member States have, with the support of WAMI, prepared national trade policies.

Improved Financial Stability and Integration

The College of Supervisors of the WAMZ (CSWAMZ) have been set up for sharing country experiences and information on issues of cross-border banking supervision in the zone. Cross border banking supervision under the auspices of the CSWAMZ is being conducted periodically, to detect vulnerabilities and take timely interventions to avoid contagion effects. Bilateral Memorandum of Understandings (MoU) between CSWAMZ and Bank Commission of UEMOA was signed for wider cooperation in banking supervision and regulation in West Africa.

Capital Market Integration

The capital markets of the Member States are being integrated to facilitate cross listing of stocks and cross border investments.

Enlarged Membership of the WAMZ

The achievements made by WAMI over the years attracted Liberia, which had maintained an observer status since the start of WAMZ, but decided to join in 2010. This resulted in the enlargement of the membership to six Member States in 2010, from five in 2000.

5.3 Challenges

Since the commencement of the WAMZ programme in 2001, notable progress has been made toward the achievement of the benchmarks set for the establishment of the WAMZ monetary union. However, the Zone continued to face myriad of challenges, including the following:

Under-performance on the convergence criteria

The underperformance on the convergence criteria could be mainly attributed to several factors, such as drought, insecurity, epidemics (ebola), global financial crisis, food and fuel crises, and crash in international commodity prices, which have, at different times, weighed heavily on the performance on convergence criteria across the Member States.

Member States' challenges in achieving the convergence criteria on a sustainable basis have been the bane to the launching of the single currency. The priority between national economic development goals and the attainment of zonal macroeconomic convergence targets is often very difficult to determine. The fiscal deficit and inflation criteria remained the most challenging for Member States. The prevalence of fiscal dominance, characterized by large budget deficit (due to inadequate revenues and/or unsustainable expenditures), continued to pose significant challenge for Member States, while supply side constraints appears to be the main cause of inflation persistence.

Asymmetric Shocks

The WAMZ economies are prone to relatively large and asymmetric shocks. Many of the economies have the same structural characteristics and lack economic complementarities, having undiversified production structures and exports dominated by a few primary products. Nigeria and Ghana are oil-exporting countries, while the other countries are oil-importers. Terms of trade shocks, exchange rate shocks, and other shocks to the real economy can affect countries differently at any point in time. The prevalence of asymmetric shocks may make it difficult for the conduct and effectiveness of monetary policy.

Limited Ownership

There is limited ownership of the WAMZ programme. Member States do not generally incorporate WAMZ programmes into their national budgets and development plans with the aim of achieving the convergence criteria, hence the convergence outcome is largely by chance.

Weak Infrastructure

Weak infrastructure, transport connectivity constrains trade flows. Intra-WAMZ trade remained low, partly due to poor transport network, unstable power and water supply.

Non-tariff barriers to trade

The continued existence of non-tariff barriers and road blocks, as well as the high transport costs continued to increase the cost of domestic production.

Capital Account Restriction

Most of the countries have not yet fully liberalized their capital accounts. Various restrictions on outflows continued 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.

Non-Ratification of Relevant Legal Instruments

While some member countries have ratified the legal instruments, others are yet to ratify and domesticate some of the instruments. Similarly, most countries have outstanding obligations in respect of the WACB's 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.

Short time frame for programme implementation

The WAMZ monetary integration programme has suffered four postponements (2003, 2005, 2009, and 2015) due mainly to insufficient time frame for all the far reaching policy reforms to be undertaken, resulting in inadequate state of readiness at each stage of assessing the status of Member States' preparedness for the introduction of the single currency. The underlying factors resulting in the postponements ranges from domestic macroeconomic shocks, exogenous shocks, to slow and selective implementation of policy reforms.

5. LESSONS OF EXPERIENCE

5.1 The European Monetary Union (EMU)

The European Monetary Union (EMU) came into existence on 1st January 1999, based on an Agreement among the participating Member States to adopt a single currency and monetary system. The experience of the EMU highlights a few steps that were taken prior to the introduction of the euro. The euro was a product of over 40 years of cooperation and policy harmonization among the Member States with great diversity of economic, social and political interests.

After the failure to create an economic and monetary union through the Snake in the Tunnel³ Approach in the early 1970s, the process of economic and monetary integration was revamped in the late 1970s and carried out in two stages. The first stage involved the establishment of the European Monetary System (EMS), which was aimed at reducing the disruptive impact of exchange rate devaluations and regulating changes in parities. The basic elements of the EMS were: the definition of the European Currency Unit (ECU) as a basket of currencies; an Exchange Rate Mechanism (ERM) based on the concept of fixed currency exchange rate margins, but with variable exchange rates within those margins; and a system of credit and loan reserves to stabilize Member State currencies in times of crisis.

The second stage, which was based on the Delors Report (1988), followed a convergence type approach. The report defined the EMU's goal as the common management of monetary and economic policies to attain common macroeconomic goals. It identified three preconditions for the establishment of an EMU, namely, total and irreversible convertibility of currencies; complete liberalization of capital transactions and integration of the financial sector; and, irreversible locking of exchange rates. The report also endorsed the ultimate adoption of a single European currency and proposed the creation of the European System of Central Banks (ESCB).

5.2 West African Economic and Monetary Union (WAEMU)

The "Financial Community of Africa," known in the French word as "Communaute Financiere d'Afrique (CFA)", evolved from the monetary institutions of the former French colonies of Central Africa and West Africa. The Agreement that determined the operation of the CFA zone was signed in 1973, and established the same conditions for its implementation with both groups. Although the CFA is not traded on the foreign exchange markets, it is fully convertible into the French franc (now the euro). The French Authorities participate in monetary policy formulation for the CFA zone and the two CFA zone central banks are required to maintain a share of their foreign exchange reserves in their operations accounts at the Banque de France (Dearden, 1999). Each of the two zones engages in annual monetary programming exercise that determines the individual Government's credit ceiling with their Central Bank. The Central Bank also retains the power to place restrictions on the refinancing facilities

³ *The Snake in the Tunnel was the first attempt at European monetary cooperation in the early 1970s, aimed at limiting fluctuations between different European currencies. It was an attempt at creating a single currency band for the European Economic Community (EEC), essentially pegging all the EEC currencies to one another*

available to the commercial banks. Between the Member States, and with France, there are no constraints on financial transfers.

In a drive to further deepen the integration process (in French Speaking West Africa?), the West African Economic and Monetary Union (WAEMU/UEMOA) was established in 1994, comprising countries that already shared a single currency- CFA franc. The UEMOA Treaty, which was inspired by the EU's Maastricht Treaty made provision for a set of convergence criteria, mainly in the area of public finance. In December 1999, the Authority of Heads of State and Government of UEMOA adopted a Stability, Growth and Solidarity Pact to reinforce macroeconomic stability, accelerate economic growth and strengthen convergence of their economies. The pact established a set of primary and secondary convergence criteria to be satisfied by members and specified a multilateral surveillance system aimed at strengthening compliance with the criteria in order to ensure greater economic policy cohesiveness within the zone. The creation of UEMOA speeded up the implementation of a number of significant programmes, including the establishment of a Customs Union in 2000, a common trade policy, a Regional Securities Exchange, and strengthening of macroeconomic surveillance and competition, among others.

5.3 East African Community (EAC)

The East African Community (EAC), comprising five countries, namely, Kenya, Tanzania, Rwanda, Uganda and Burundi, was established in 1999 with the objectives to forming a customs union, common market, monetary union, and ultimately, a political union. The customs union became operational in 2005 and was formally completed in 2010. The Common Market Protocol, which includes free movement of goods, labour, persons, services and capital, and the right of residence and establishment, was signed in 2009, and its full implementation was completed in 2015. However, the goal of establishing a monetary union has not yet been achieved.

In EAC, macroeconomic convergence criteria were adopted by Partner States in 2007. They were set for three different stages and categorised into primary and secondary criteria in the first two stages, followed by introduction of a single currency at the last stage. However, performance has been mixed so far, with the convergence of fiscal deficits excluding grants and inflation persistently exceeding the targets thereby breaching the convergence criteria.

Due to the delay and postponements suffered by the EAC monetary integration programme, the Authority of Heads of State, at their Summit in 2007, decided to fast track the establishment of monetary union by 2012. However, because of the failure in meeting the requirements to establish a monetary union, the proposed introduction of a single currency is postponed to 2024.

Despite the challenges encountered on the journey to the monetary union, several milestones have been achieved along the way including the following: harmonization of banking regulation, payments system integration, the harmonization of monetary and exchange rate policies, implementation of the customs union and common market protocols, among others. The Authorities also recognized that it is necessary to ensure the existence of adequate preconditions to make sure that benefits of joining the East African Monetary Union will exceed the costs. These prerequisites include economic, political, and institutional requirements which require substantial amount of time for a successful transition. It is worthy of note that political support is very strong in EAC; nonetheless, important challenges remain in building a solid foundation before adopting the EAC single currency.

5.4 The Gulf Cooperation Council (GCC)

The Gulf Cooperation Council (GCC) was established in 1981, comprising six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirate (UAE). The objective was to

strengthen economic relations and coordinate monetary and financial policies towards achieving a monetary union. The GCC States have several socio-economic characteristics that make them homogenous and less likely to suffer asymmetric shocks. Saudi Arabia remained the largest economy and continued to play a central role in strengthening regional cooperation in the GCC.

As a lead-up to the monetary union, members officially pegged their currencies to the US dollar in 2002, and formed a customs union in 2005. In order to ensure full compliance with the integration process, in 2007, the GCC countries agreed to adopt a set of five macroeconomic convergence criteria.

Despite more than thirty years of efforts, following the signing of the GCC Charter in 1981, the goal of monetary union has not yet been achieved. Key challenges constrained the region's drive towards the establishment of a monetary union. Unlike the EU, Member States of the GCC are unwilling to surrender sovereignty to regional institutions. The GCC has no regional decision-making body; hence decision-making authority rests solely with the six monarchs, where the rule of unanimity applies.

5.5 Lessons for the WAMZ

Experiences of existing and other prospective monetary unions suggest that the formation of a sustainable monetary union can be long and complex, requiring adequate time for preparation. It took the European Union over four decades to introduce the euro in 1999, after encountering series of postponements for the formation of the EMU. The transition toward EMU was based on the principle of gradualism, that is, the transition towards monetary union in Europe was a gradual process, guided by the achievement of convergence criteria. Similarly, in GCC, despite more than thirty years of cooperative efforts, the goal of establishing a monetary union has not yet been achieved in the GCC.

The euro Zone crisis has also shown that monetary union is not an end, and that sound and credible monetary union does not only imply monetary integration, but also requires a combination of economic, financial, and fiscal integration with strong political will. Formation of monetary union also requires the achievement of sustainable convergence and strengthening of multilateral surveillance before and after its formation. It also requires strong institutional design such as independent supranational monetary authority and well-built frameworks for fiscal discipline, as well as the implementation of relevant economic and financial policies at the national level.

6. CONCLUSION

The establishment of a monetary union requires sufficient degree of macroeconomic convergence, financial and trade integration. Additionally, there is need for legal and institutional preparedness, and well-built framework for fiscal discipline. The WAMZ project cannot be brought to successful completion without the fulfillment of these conditions and demonstration of strong policy implementation commitment.

Despite its simplistic theoretical underpinning, the Optimum Currency Area (OCA) forms the basis for understanding the conditions required, prior to the establishment of a monetary union. Variants of the OCA i.e. the "convergence criteria" approaches form the foundation for the establishment of the WAMZ monetary union. There are also the benefits and costs associated with belonging to a monetary union. The benefits of a single currency among Member States of a monetary union are immense. Single currency removes transactions costs associated with converting one currency to another, uncertainty, conserves gross external reserves, and ensures relative price stability. It is argued that single currency promotes trade integration and that trade is one of the most important determinants of economic growth, as it plays a significant role in terms of job creation, revenue generation, poverty reduction, as well as strengthening bilateral or multilateral ties between nations by bringing people together for mutual exchange of goods and services. It is for these reasons that there has been growing interest in monetary

union. The fundamental cost, however, is the loss of independent monetary policy by a participating member state.

The journey of the WAMZ monetary integration programme presents both achievements and challenges, but has not yet been able to deliver on the single currency. The status of convergence as at 2017 suggest that performance on all the programme areas are below the minimum threshold required for launching of a viable monetary union. The lessons arising from the review of the existing monetary unions reveal that monetary integration is a process not an event, thereby requiring adequate time to ensure that the requisite building blocks are put in place to secure a durable and credible monetary union.

The experience of the WAMZ toward the introduction of a single currency was mixed. While significant milestones have been achieved, numerous challenges have impeded the achievement of the goals of the WAMZ. The policy implications arising from this paper suggest that policy commitment should be intensified towards the introduction of the single currency.

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