AN EVALUATION OF MONETARY INTEGRATION IN THE ECONOMIC COMMUNITY OF WEST-AFRICAN STATES (ECOWAS)

BY

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A Dissertation Submitted to the Postgraduate School, Ahmadu Bello University, Zaria in Partial Fulfillment for the Award of the Degree of Doctor of Philosophy in Business Administration.

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DECLARATION

I hereby declare that this thesis is a record of my own research work. It has not been presented anywhere for the award of a higher degree.



Signed: **Bashir U. Kurfi**

Date: 15/08/07

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CERTIFICATION

This thesis entitled "**A Study of Monetary Integration in the Economic Community of West-African States (ECOWAS)**" by **Bashir U. Kurfi;** meets the requirements of the award of the Degree of Doctor of Philosophy (Ph.D Business Administration) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to my wife Raliya for her patience and tolerance of all the inconveniences in several ways during our marriage life. Also to my children Intissal and Nusaiba who suffered a lot of inconveniences because of my frequent travels when I was conducting this study.

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All thanks goes to All Mighty Allah the Knower.

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ABSTRACT

Monetary integration is the process of moving from the situation where each country or subset of countries within a region has its own currency or exchange arrangement, with different degrees of convertibility, to one were all countries within a region share a common currency and consequently a unified exchange arrangement under the supervision of a supranational monetary institution

The Economic Community of West African States (ECOWAS) which was established a Treaty signed in Lagos in 1975, has as one of its principal objectives, the achievement of monetary cooperation of its member states. In furtherance to this objective, the Authority of Heads of States and Governments at its 1987 annual summit agreed on a programme of actions, and in 1990 annual summit, the Authority approved a time-table for the application of measures to achieve the creation of a single monetary zone by 1994. Consequently a Study Group set up by the committee of Governors of Central Banks in ECOWAS recommended the introduction of a common currency for the region by the year 2000. Within this context therefore, this study attempts to evaluate the state of preparedness of ECOWAS member

states towards the achievement of the monetary integration within the sub-region in line with the original objective.

The study examined the performance of countries on the basis of various target indicators as agreed by the member states, (i.e. Exchange Rate Variability, Inflation, Deficit/GDP Ratios) in ascertaining the degree of convergence: Chi-Square test was used to evaluate the extent of uniformity of convergence of the various countries and concluded that most countries in the region fail to meet the convergence criteria supporting the view that, it is unlikely to achieve monetary integration in the short or medium term.

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CHAPTER ONE

1.0 INTRODUCTION

The Economic Community of West African states (ECOWAS), which was established by a Treaty signed in Lagos in 1975, has as one of its principal objectives the achievement of greater monetary cooperation through the harmonization and co-ordination of monetary and fiscal policies of its member countries. In Article 2(h) of the Treaty, the community pledged to ensure "the harmonisation, required for the proper functioning of the community, of the monetary policies of member States." Also, Article 36 I(b) provides that the Trade Customs, Immigration, monetary and Payments commission, among other things, should "as soon as practicable make recommendations for the harmonization of the economic and fiscal policies of the member States."

To achieve the above objectives, the Authority of Heads of state and Government at its 1987 annual summit agreed on a programme of actions which included the adoption of adjustment measures for the harmonization of exchange rates, fiscal and monetary policies of member States, leading ultimately to the introduction of a single currency to be issued by a common central bank. This decision was based on the recommendations of studies

earlier commissioned.' Further, at its 1990 annual summit The Authority approved a time-table for the application of measures to achieve the creation of a single monetary zone by 1994. More recently, a Study Group set up by the Committee of Governors of Central Banks in ECOWAS recommended the introduction of a common currency for the region by the year 2000, which is to be implemented in three stages.

The goal of monetary union and a single currency in ECOWAS has no doubt been influenced by some perceived benefits from such an arrangement. The first benefit derives from the standard function of money as a medium of exchange. A common currency eliminates the costs of money conversion and forward cover required under a flexible exchange system. This way, a common currency ensures a boost to trade by eliminating uncertainties about exchange rate fluctuations and reductions in administrative costs (time and money) for business. Furthermore, a single regional currency would tend to fluctuate less against third country currencies than individual currencies, and thereby also boosts inter-regional as well as intra-regional trade.

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Secondly, under a common currency, speculative capital flows, which often frustrates monetary control efforts, are absent. Thirdly, there would be allocative efficiency. Removal of all forms of capital controls and differing treatments of financial capital would lead to free movement of capital. Similarly, wages expressed in terms of a common currency should result in a better allocation of labour, as labour moves from areas of low marginal productivity to high productivity areas.

Fourthly, there would be savings on foreign exchange reserves because it eliminates the costs of money conversion and forward cover required under a flexible exchange system. Fifthly, monetary integration is likely to accelerate fiscal integration. This could derive from efforts to eliminate unemployment or depressed regions through public expenditure coordination, especially when it is recognized that if such expenditure is concentrated in one region or country it may induce migration from other regions or countries and thereby defeat the purpose of the expenditure.

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Monetary integration is not without its costs. The most obvious is the loss of autonomy in monetary policy, and thereby a loss of a key economic

policy instrument, especially when counter cyclical monetary policy might be required. Furthermore, the jointly controlled monetary policy would often be designed to serve the majority interest. Also, loss of exchange rate as a policy instrument for external balance violates the Tinbergen rule which requires that for effective policy making there should be as many instruments as there are objectives or targets.

Monetary integration may also lead to a loss of full autonomy with regards to fiscal policy as an instrument for influencing domestic employment. It could be argued though that where coordination of objectives and policy is fully implemented there may be no need for additional individual effort on employment.

In any case advocates of monetary integration often argue that the benefits do outweigh the costs, and as such it is desirable. With this desirability and on the basis of the visionary focus of Ecowas leaders on May 3, 1983 at a meeting of the authority of Heads of States and Governments decided to commission studies to look at the possibility of a common currency by the year 2000. We are in the year 2000, are we in the Ecowas close to monetary

integration? If not why not? This thesis therefore try to study the state of preparedness of the ECOWAS towards monetary integration.

1.1 Statement of the Problem

At its 10th session held in Abuja, July 1987, the Authority of Heads of State and Government adopted the ECOWAS Monetary Cooperation programme (MCP) which envisaged the establishment of a single monetary zone by the year 2000. Ten years after the decision of the Authority and barely three years to the target date, the committee of Governors at its meeting held in Conakry, May 1997 expressed concern about the slow progress, particularly having in view the current trends of globalization or regionalization of the world economy, and the pareparations being made by other regions to meet the challenges of the 21st century. A case in poiint is the preparation being made in Europe, major trading partner of member states, towards the establishment of economic and monetary union to be underpinned by common currency, the EURO.

The study would analyze the promise of the possibility of achieving monetary union by 1997 going by the declaration of 1994 by the Authority of

the Heads of State. Within this context therefore some research questions could be pause.

- To what extent have the 1994 declaration on convergence criteria on monetary union has been achieved?
- What can be said to be responsible for this level of achievement if any?
- What are the policy options necessary to fill the remaining gaps?

What progress has been made by member states towards the implementation of agreed measures to facilitate the establishment of a single monetary zone by the year 2000?

What are the policy measures that were yet be implemented by member states in order to meet the target date?

Are there some political factors that delay the take off of the monetary integration programme?

The Authority agreed that for the achievement of single monetary zone, various target indicators should provide the basis for ascertaining the degree of convergence. The macro-economic indicators that have been agreed upon include the following:

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- achievement of exchange rate variability of less than equal to 10%.
- achievement of inflation rate of less than or equal to 5%
- sustenance of a budget deficit/GDP rate of less than or equal to 4%.

What are the possible reasons that can explain the issues raised?

1.2 Purpose of the Study

The objectives of this study are:

1. To examine the extent to which member countries of ECOWAS have met the convergence criteria necessary for monetary integration.
2. To evaluate the state of convertibility of the National Currencies in the ECOWAS sub-region.
3. To examine trends and development in global monetary integration.

1.3 Hypothesis

Three hypothesis are put forward.

H_0: Achievement of single monetary zone is independent of variability of exchange rate within $\leq$ 10% of exchange rate variable

H_1: Achievement of single monetary zone is independent of inflationary rate of $\leq$ 5%>

H_3: Achievement of single monetary zone is independent of budget deficit/GDP ratio of ≤ 4%.

1.4 Significance of the Study

By the year 2000 our major trading partners, the Europeans have integrated their economies to the extent that by the year 2003 the whole of Western Europe will have one currency the Euro. In addition developing regions like the Maghreb, the Arab world, southern Africa and the ASEAN are in advanced stage towards integration.

From the perspective of our country, Nigeria constitute 50% of the population of the ECOWAS, therefore any economic policy in Nigeria must take into consideration of what is happening in the sub-region, in actual fact most of our goods either end up in their countries or their end up in ours.

It is obvious that from our own perspective the movement for monetary integration must take into consideration the historical relations between Nigeria and her neighbours who are French speaking and basically with integrated

economic policy directed by France. This study will analyse this relationship and the implications.

ECOWAS have been in existence for about 25 years but unfortunately very little concrete achievement have been recorded both in terms of its aims and its policies.

Studies have shown that a lot of these policies and objectives have not been achieved because of some institutional and historical policy dislocations.

It is in realization of the intractability of the policies of both monetary union and free trade area that the authority of the Heads of States of ECOWAS met in Conakry (1994) and came out with a convergence criteria which is hoped if followed the objectives would be reached.

The study will therefore be significant if we can put these conditions and criteria under some evaluative analysis to ascertain whether these policies have pave the way of others before it or has reached any appreciable success of development.

1.5 Limitation of the Study

This study is limited to the period 1987 when the idea of single monetary zone was conceived to the year 1997. However for the purpose of this study our analysis will focus more properly between 1994 - 1997 because this is when ECOWAS set out the convergence criteria.

As this study is of subregional nature, it therefore entails movement from one country to the other which is costly and risky because some countries are engaged in civil war. For example the time I arrived at Freetown there was a serious civil strife which lead to the closure of the Centre for Monetary Studies where I was to visit. The staff had to be evacuated to Guinea Conakry.

A lot of the data is gotten from the Central banks of these countries and they tend to make some of the information required secretive and even when information have to be released it must be authorized by the highest level of the Banks. The bureaucracies of these apex banks can be very frustrating for a researcher.

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Another limitation is that some of these countries dues to the nature of their political system they are very close, as such squeezing data out of them can be very problematic.

The size of data base for this research is wide, involving sixteen African countries of which I visited most of them is very expensive and tiring physically.

The language barrier is also a problem, most of the ECOWAS nations is French speaking and quite voluminous literature are in French as such a lot of time services of bilingual have to be engaged.

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CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

One of the prominent features of the contemporary international system is the heightened tendency of some state units to gravitate toward some degree of regional integration, particularly regional economic integration. This process toward economic integration, as distinct from political integration, was of relatively little importance before 1945. Although there were unsuccessful attempts in the interwar period to establish some kind of customs union in Europe, the issue of economic integration as a distinct process did not come to the forefront until after World War II, when it became very clear that the relatively small national states created in Western Europe during the past centuries no longer corresponded to the size requirements of a modern industrial economy.

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Since World War II, therefore, many countries that are close neighbors or have common problems of economic development have tended to strive to maintain some degree of economic cooperation. Economic integration has become such a worldwide phenomenon that the post-world war period has been

to some extent described as an "era of regional integration," or, as scholars like Haberler would have it, "the age of integration."

The European Coal and Steel Community (ECSC), the EEC and, to a lesser degree, the European Free Trade Association (EFTA) are undoubtedly the best known of the post-World War II regional integration efforts. The postwar progress toward integration in Europe has made a considerable impression on many countries, and the European Payments Union and the EEC are frequently, if uncritically, cited as models of integration in payments and trade, respectively, and their roles in the economic recovery and progress of Postwar Europe underscored. This has encouraged, in some quarters, the idea of a simple and causal relationship between integration and economic recovery or growth.

It is against this background that during the 1950s and early 1960s, the idea of economic integration became attractive to Political and economic leaders of the Third World. The potential Power of the EEC triggered a desire for emulation both to ;reap the alleged benefits and to seek protection against the EEC's capacity to export and import goods.

In the case of developing countries the concept of cooperation was embodied in the theme of collective self-reliance is further developed by the declaration and plan of action on industrial development issued at the end of the second general conference of UNIDO held in Lima in March 1975; the resolution on "Development and International Economic Cooperation" adopted by the Seventh Special Session of the General Assembly; and the resolution adopted by the UNCTAD IV Session at Nairobi in May 1976. Outside the UN and its agencies, too, cooperation among developing countries was, for example, the subject of three major meetings in 1976--in Manila, Colombo, and Mexico City. These declarations and resolutions represent, on one hand, genuine desires for a restructuring of international economic relations and, on the other to offer a reasonable basis for cooperation among developing nations.

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It must be stressed, however, that in spite of these declarations and resolutions, very little progress has been achieved when it comes to concrete measures to reorganize international economic relations on bases that are both realistic, just, and equitable. The confrontation between the developing countries and developed countries that manifested itself at the Sixth session of the United Nations General Assembly; the failure of the developing countries

to achieve most of the objectives that they sought for, for the purpose of restructuring the world economic order at the Fourth Session of UNCTAD at Nairobi. In May, 1965,[5] the breaking down of the Paris, North-South Dialogue in June 1977; the failure Of UNCTAD V at Manila in June 1979; the setback of UNIDO III in New Delhi in January-February 1980; the frustrations at the UNCTAD VI in Belgrade in June, 1983[6] all suggested that the advanced industrial countries are not prepared to make the sacrifice necessary to achieve a New Economic Order. In these circumstances it is essential that Third World countries consolidate their own economic base in order to be able to resist the eventual pressures and to negotiate successfully their participation in the international division of labor under more favorable conditions. The only leverage available to them is in the development of their own institutions of economic and trading cooperation. Thus, the salvation of the developing countries ties in mapping out their own strategy to solve their economic problems. They are to foster mutual cooperation so as to impart strength to their national endeavors to fortify their independence. For although each individual country might be weak, President Nyerere has said:

> "Together, or even in groups, we are much less weak. We have the capability to help each other in many ways, each gaining in the process. And as a

> combined group we can meet the wealthy nations on very different terms; for though they may not need any one of us for their own economic health, they cannot cut themselves off from all of us.[7]

It is within this framework that the establishment of regional groupings that foster economic development through self-reliance appears essential. Such groupings embody the potential for joint action by developing countries that will strengthen their capacity to negotiate with developed countries and reduce their dependency on them. For in some form of unity, remarked Charles Pentland, there is "strength to resist exploitation and manipulation by major economic powers and multinational corporations, to resolve regionally shared economic and social problems, and to force structural reform of the international economy."[8] Furthermore, expansion of trade and financial cooperation among developing countries, coupled with increased production for their domestic markets, will undoubtedly affect the economic relations between developed and developing countries.

It is on the basis of such considerations, as well as in response to the developments of the European Communities, that common markets, customs

unions, free trade areas, and other devices for economic integration of more limited scope are becoming fashionable in the developing world. There is now hardly a geographical area in the world where some kind of economic integration scheme cannot be found. Some of the schemes have been in operation for quite some time. Many, in contrast, are of a recent vintage, and some have had a rather checkered history. The general thrust, however, is unmistakably toward the strengthening of economic relations among developing countries and ,the invigoration of their joint efforts to tap fully their development potential. This trend has received a great deal of impetus since the early 1970s, following the dramatic changes in the world economy and the serious repercussions that these have had on the economies Of the developing countries.

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2.2 Regional Economic Cooperation

Although the record of attempts at political and economic integration among developing countries is ironically the fervor with which integration is proposed as a response to the problems of developing countries has increased in spite of the experience of integration. In Latin America in the nineteenth century and Africa in the early 1960s, the first steps were taken toward the

establishment of broad continental common markets. A similar approach has never been tried in Asia, probably because of various overriding political factors. The heart of Asia is occupied by two major world powers, the Soviet Union and China; on the continent's southern perimeter are two warring but large and economically self-contained units, India and Pakistan; and *military conflicts have been raging across southeast Asia for the past quarter of a century. But in both Latin America and Africa (if Latin America can be considered a continent) the continental approach seemed to be especially attractive on political grounds.

2.2.1 Latin America

The concept of integration in Latin America has a long if not troubled history. Ever since the independence movement which led to the disappearance of the Spanish and Portuguese empires from that part of the world in the early nineteenth century, continental nationalists have dreamed of some form of a Latin American Union. After the failure of the early attempts at creating a political confederation, the vision of a United Latin America gave way in the mid-1880s to the idea of an interAmerican system and to the rhetoric of "Pan Americanism." But the concept of Latin American integration did not

die. In the late 1940s and early 1950s the movement toward regional cooperation resurfaced, this time with an emphasis on economic integration. Under the intellectual leadership and creative influence of Raul Prebisch, the executive secretary of the United Nations Economic Commission for Latin America (ECLA), the Latin American states turned to economic union to resolve the dilemma of import substitution industrialization.[9] Beset by foreign trade problems, lacking external capital assistance, and moved by the idea of spiritual and cultural unity, Latin Americans found the proposal for regional cooperation attractive.

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The 1960s were the historical years of Latin American integration: there were "so many attempts at integration, so many problems."[10] By the mid-1970s, if not earlier, it was clear that Latin American integration was in serious trouble. After an initial surge, trade among the member states of the various economic unions stagnated at a relatively low level. For example, the LAFTA--founded in 1960 to replace the original idea of a Latin American Common Market--had been stagnating for years. It was finally dissolved on 12 August 1980 at a meeting of foreign ministers of Latin American countries held in Montevideo. The ministers adopted a different, and unprecedented path to

integration, agreeing to set up a new institutional framework, the Latin American Integration Association (LAIA), which was expected to supersede LAFTA from the beginning of 1981.[11]

The Central American Common Market (CACM), also established in 1960, has been paralyzed for a long time. The outbreak of hostilities between El Salvador and Honduras in 1969 wrecked the CACM, and subsequent efforts to revive it have been only partially successful. The CACM is still in a state of seemingly permanent reorganization. The Economic Union of Caribbean countries established in 1968 as a free trade union (CARIFTA) and converted in 1973 to a Common Market (CARICOM) also shows signs of disintegration. The Andean Group, established in 1969 within the LAFTA structure to advance more quickly toward a common market in the Andean sub-region, is after initial successes also subject to serious problems. It is now trying to reconstitute itself following Chile's withdrawal in 1976 over a dispute on the common treatment of foreign investment. Undeniably, the economic integration schemes launched optimistically in the 1960s were largely moribund in the 1970s.

2.2.3 Asia

Just at about the same time that regional integration schemes were being created in Latin America, Asian economists associated with the UN Economic Commission for Asia and the Far East (ECAFE) initiated studies of the prospects for regional economic cooperation in South and Southeast Asia. ECAFE's Bangkok Resolution of 1960 calling for greater attention to international regionalism, intraregional trade promotion, and regional cooperation to achieve economic development and greater productivity was a landmark in the history of economic cooperation in Asia. Since 1960, therefore, collective action at the regional level to secure national goals has become an increasingly characteristic and important feature of Asian international relations. Over the period from 1959 and 1975, regional cooperation increased dramatically in Asia. The latest and most successful attempt at regional cooperation is the declaration of Association of South East Asian Nations (ASEAN) signed in Bangkok on 8 August 1967 by five of the eleven Southeast Asian states--Indonesia, Malaysia, the Philippines, Singapore, and Thailand. ASEAN came into existence as part of the settlement ending confrontation between Indonesia and Malaysia at a moment when relations between the member states were still very uneasy.

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In coming to some interim conclusions, it can be said that ASEAN is showing more promise as a viable regional economic scheme than those in Latin America. It cannot be denied that the world has taken ASEAN very seriously as shown by its negotiations with the major trading countries and associations of the developed world. So far it can be said that the Association of South '*East Asian Nations has grown beyond its critical planning phase and has developed into the most important instrument for its member countries. [15]

2.3.4 Africa

In Africa, too, economic integration has been in the forefront of discussion since the massive movement toward independence in the late 1950s and early 1960s. There was immediate recognition that, while independence had been the primary goal, African countries were largely artificial by-products of the colonial scramble of the era of the 1884-85 Berlin Conference; many African countries were too small to be economically viable and the transformation of political into economic independence necessarily required concerted action.

Against this background, it is not surprising that economic integration has been seen as a means of helping to overcome the disadvantages of small size, low per capita incomes, small populations, and narrow resource bases, and of making possible a greater rate of economic growth and development. It has also been seen as a means of consolidating the political independence of African countries and thereby strengthening their overall position vis-a-vis that of the developed countries, especially the former metropolitan powers. In brief, economic integration or cooperation in general is not only desirable; it is necessary if Africa is to industrialize, develop intra-African trade, reduce her dependency on vulnerable and fluctuating overseas markets, mobilize and maximize scarce resources of capital and skills, and finally forge the way to effective African unity, both political and economic. This has been eloquently underscored by the *Lagos Plan of Action,* which recognizes the importance of regional economic cooperation and integration as necessary instruments for pursuing the objectives of national and collective self-reliance. Hence the discussion of regionalism in virtually every chapter of the Lagos Plan. It constitutes an integral condition for implementation of the Plan.

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Even before the departure of the colonial powers African leaders had realized the significance of economic cooperation. The historic All-African Peoples Conference held in Accra in December 1958 called for the removal of customs and other restrictions on trade among African states and the conclusion of multilateral payments agreements, with a view to enhancing economic exchanges and the consequent establishment of an African Common Market.[17] Since independence, African countries have attempted various forms of collective self-reliance through regional economic cooperation as a means of accelerating their socioeconomic development. According to Adebayo Adedeji, executive secretary of the Economic Commission for Africa (ECA), there were by 1977 "over 20 intergovernmental multi-sectoral economic cooperation organizations" in Africa and "about one hundred single sector multinational organizations that are meant to promote technical and economic cooperation in Africa." Many of these were established in the 1960s. But the decade was also characterized by the decline of several regional groupings.

One may cite, for example, the East African Community (EAC), which experienced such acute tensions in the 1960s that by the end of the decade the level of economic integration had declined. And by June 1977 the whole

structure of the EAC had disintegrated. Nor did the Customs and Economic Union of Central Africa (UDEAC) set up in January 1966 fare any better; restrictions on the opening of markets and noncompliance with its rules have sapped it of most of its energy as an integration system. Also, the cooperation agreements of the nine-member Maghreb Permanent Consultative Committee, formed in November 1965, have never been ratified. So far, concrete achievements in Africa in the fields of regional cooperation have been very modest or non-existent. The question, then, arises, why so little progress and such faltering steps?

The problems and constraints of African economic cooperation are many, and seemingly intractable. We may mention in brief, the problem arising from the charms of national sovereignty, and the constraints relating to the difficulty in reaching acceptable formulas and procedures as to the way in which the costs and benefits of economic cooperation should be shared. Another important constraint is the failure of political initiatives and declared collective goodwill to be matched by practical action. Besides, as a recent study of the ECA has concluded, there are ,'mutual suspicion and differences of political outlook arising from heterogeneous cultures and varied colonial

heritage, fear of being dominated by others and an insular view imposed by ultra-nationalism are all delicate problems which require tact and patience."[19] Political and ideological cleavages also seem to threaten even existing and otherwise viable cooperative arrangements such as the Case of the defunct East African Community.

Because of these key obstacles and constraints, the creation of regional cooperation in Africa is often "no more than a declaration of intent and an indication of continental alignments."[20] Despite the rhetoric of Pan-African solidarity and the paraphernalia of elaborate decision-making structures, few groupings have advanced either unity or development. Thus regional cooperation has not been an easy panacea for Africa's inheritance of balkanization and underdevelopment.

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Ironically, despite this disillusioning record, the fervor with which regional cooperation has been proposed as a response to the problems of Africa has increased tremendously in recent years. Since the early 1970s, the world recession and its severe impact on Africa's economic performance have, if anything, strengthened interest in the establishment of new regional groups and

the geographical extension of existing ones. This trend was reinforced at the November 1984 OAU Addis Ababa summit where the African leaders reaffirmed in an important resolution their "solemn commitment to put together" their collective effort to implement the Lagos Plan of Action through the process of regional economic cooperation and integration.[21] Hence, the past several years have witnessed the re-emergence of a rash of regional integration schemes in Africa as more or less explicit challenges to external domination of the continent inherited from the colonial era. Among the most ambitious and dynamic is the ECOWAS, which is the subject of this study. Besides ECOWAS the two newest initiatives are in Southern Africa. The first is the Southern African Development Coordination Conference (SADCC), which was formally inaugurated in April 1980 by the signing of the Lusaka Declaration on Economic Liberation by the nine Southern African states. The second is the Preferential Trade Area for Eastern and Southern African States (PTA), which was concluded in Lusaka in December 1981 by nine out of the potential eighteen states. 22 PTA was finally launched in Zimbabwe in July 1984. The latest initiative is the treaty signed in Libreville in October 1983 to establish the Economic Community of the States of Central Africa (CEEAC), comprising the present members of UDEAC and those of the Economic Community of the

Great Lakes.[23] This is intended to be the Central African equivalent of the ECOWAS.

The basic objective of these new regional integration schemes is the same: to reduce dependence of their respective member states on the external forces that seek to influence the economic policies and directions of African states; to help to improve the bargaining position of African countries, thus contributing to their development potential through the broader strategy for promoting a NIEO; and to coordinate the development programs in the different sectors and subsectors as a means of accelerating the rate of economic growth and development. The underlying, premise is the desire by African states and leaders to determine as far as possible their own economic policies based on their national aspirations, natural resources, and political ideologies outside the influence of developed countries.

But what have the new regional schemes achieved so far, in only a few years of existence? Because of the recent emphasis on the concept of collective self-reliance among developing countries, it is too often assumed that any form of economic integration or cooperation will have a positive impact on

development. Yet schemes such as ECOWAS, PTA, SADCC, or CEEAC will not automatically lead to accelerated development. As Shaw and Grieve have warned, regional integration "is not always an escape from Africa's inheritance of subordination," and it may not advance disintegration from the global economy."[24] Indeed, without a well-considered and intensive effort inrestructuring the economy and without adequate planning, regional schemes may lead to "regional inequalities and continued dependence."

Viewed from this "radical approach," with its focus on dependence and underdevelopment from a global perspective,.just how far have the new regional initiatives attempted to fundamentally restructure both national and regional political economies as the prerequisite for integ ration and development? Or to what extent have they, for example, initiated efforts toward intra-regional trade or horizontal exchange in order to overcome an inheritance of vertical integration with former metropolises,leading.toward greater self-reliance at both national and collective levels? How far have they effectively challenged the established pattern of trade and division of labor? Given such complex problems, although regional economic integration is certainly important as a means of loosening the developmental constraints

confronting African states, it is unlikely to be an easy process. It is against this background that we attempt to examine the initiatives, experience, progress, and prospect of ECOWAS and having understood the background globally the last portionof this chapter will look at the world historical development of monetary integration or monetary union as currently referred.

2.3 Monetary Union

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2.3.1 Italian Monetary Union

Before the middle of the nineteenth century, Italy was a collection of a dozen or so separate national states with their own currencies, extending from Piedmont in the north to the Kingdom of the Two Sicilies in the south. The desire emerged in these countries to throw off the long-standing economic and political dominance of their large neighbour Austria. The formation of Italy was secured, surprisingly swiftly, during the 1859-60 period, mainly by the efforts of Cavour, the Prime Minister of Piedmont, who won a military victory over Austria with the help of France. Although more small states were added later, unification was largely complete by 1861. In 1862 the monetary system was also unified across the new country, with the lira introduced as the unit of account throughout the area.

It should be recognized that the working of the monetary system in the nineteenth century was very different from that of today. It was essentially a coinage system, based on the precious metals gold and silver. Some countries based their systems on gold, some on silver, and others, most importantly France, incorporated both. The use of banknotes was becoming increasingly significant, but note issue was not as today solely the prerogative of the central monetary authority, and could also be implemented by private banks. Clearly, this not only prevented any effective control of money supply but also led to undue complexity in the domestic monetary system. In times of overissue of bank notes, frequently to finance wars, inflation would ensure and the convertibility of banknotes into the precious-metal coins would inevitably be suspended for long periods.

Such problems of monetary inflation and banking chaos plagued Italy after unification. The new country was economically disorganized and political unity was not popular in the south. Initially, there were no moves to establish a central bank, as a result of resistance from regional interests, and the main commercial banks in the former states continued to issue their own notes. In 1893 the Bank of Italy was finally created out of three of these banks and some

semblance of control was established. Real monetary unification was not finalized until 1926, when the Bank of Italy was given monopoly over note issuance and began to operate an effective monetary policy.

The failure to centralize monetary control for a considerable length of time after political union promoted financial instability and severe economic dislocation, which to some extent continues to this day.

2.3.2 German Unification

The political unification of Germany entailed a similar sequence of events to that of Italy, but financial and economic developments followed a very different course. In the early nineteenth century Germany consisted of a multitude of different states, all issuing their own coins. However, unlike Italian political unification, the process in Germany was preceded by moves towards economic convergence.

In 1834 the German states founded a customs union, the *Zoll*-verein, which created a free trade zone throughout the area. Since the multiplicity of coinage systems was seen as an impediment to trade, the monetary system was

simplified in 1837. Each state joined one of two currency areas - the northern states adopted the thaler, which was the coinage system of the largest state, Prussia, and the southern states adopted the gulden. Both were based on silver.

Between 1864 and 1871 political unification of the German states was secured as a result of successful wars against Denmark, Austria and France, under the leadership of the Prussian Chancellor Bismarck. Upon the creation of Germany in 1871 the mark was introduced as the new national currency, based on gold.

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Unlike the case of Italy, an effective state central bank was quickly created, with the establishment of the Reichsbank in 1875. At this time some 30 commercial banks with the facility to issue notes were in existence, but the Reichsbank immediately took measures to severely curtail this activity. Accordingly, a strong central measure of control was established early on, and the number of note issuing banks declined rapidly. Financial stability hence-forth prevailed in Germany for many years until the dislocations caused by the aftermath of the First World War.

The contrast with Italy is illuminating. In Germany economic integration between the states occurred first, and was followed by the stabilization of exchange rates. Political unification came afterwards and monetary union was quickly centralized. In Italy, by contrast, there was no economic integration preceding political unification. Political unification took place somewhat unexpectedly and monetary unification took place much later. Economic integration was left to follow in the wake of these events.

The German unification in the nineteenth century would seem to offer a reassuring precedent for EMU, with a customs union paving the way for a successful monetary unification. But the crucial difference is that the German experience was accompanied by simultaneous political union. The example of Italy, however, shows that political union alone does not guarantee a successful monetary union.

2.4 The Creation of the Us Federal Reserve System

The US is a long-standing and effective monetary union. It operates a single monetary policy across a large area, equivalent in size to the area covered by the new European System of Central Banks. However, the

structure of US monetary policy as it now exists is actually a relatively recent phenomenon.

The American Civil War (1861-5) created the US as the country we know it today by establishing the dominance of the Federal government over the state governments. National Banking Acts in the 1863-5 period attempted to standardize the country's banking laws, which before the Civil War had varied from state to state. They also sought to limit the freedom of state banks to issue their own notes in favour of nationally chartered banks, but the banking system none the less continued to be highly decentralized. Although the US was a single currency area, no central bank actually existed, and this remained the case into the early 1900s. By this time most other industrialized countries (even Italy) had one. The nature of the banking system proved too inflexible to provide the needs of a rapidly expanding economy. There were periodic money shortages, financial panics and runs on banks. There were also seasonal strains on the system.

After a major banking crisis in 1907 it was decided that a central bank was essential to provide a more 'elastic' supply of money and credit. Because

of the continuing strength of regional interests only a loose federal set-up was deemed politically acceptable, as opposed to the highly centralized systems in Germany or the UK. As created in 1913, the US central bank, the Federal Reserve System, divided the country into 12 areas, each with its own Reserve Bank. Each was free to issue its banknotes and to set its own interest rates.

The Federal Reserve's policy at this time was very much geared to stabilizing interest rates, providing enough liquidity to fulfil the requirements of the private sector, and smoothing over seasonal demands for money. Thus it was quite different from the modern implementation of counter-cyclical monetary policy operations.

However, the structure of the Federal Reserve as it then stood created a good deal of confusion, and a power struggle ensued between the the Board of Governors running the system from Washington and the individual Reserve Banks spread throughout the country. From 1922 onwards a gradual centralization of authority began. This gathered pace after the 1929 crash and attendant banking crises, during which it was argued that the Federal Reserve's equivocal structure hampered an efficient response in dealing with the

situation. The depth of the crisis enabled the Board in Washington at last to overcome the interests of regional bankers.

With the 1933 Banking Act, the Federal Open Market Committee (FOMC) was created to carry out countrywide monetary policy. This finally centralized the implementation of operations and Reserve Bank interest rates throughout the whole country. The power at the centre was consolidated in 1935, when the number of Reserve Bank Presidents on the FOMC was reduced from twelve to five (each serving on a revolving basis), thus numbering less than the seven members of the Board of Governors. This was a structure that subsequently operated extremely successfully and remains in place to this day.

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In this case, we have a situation of political unification having been long established before final monetary unification, in the form of a centralized monetary policy, occurred. This story is similar to that of Italy, with again the erosion of regional monetary authority being an extended and painful process, although the economy of course was considerably more successful due to its extraordinary resources and flexibility.

The message of this for European Monetary Union (EMU) is that it was right to pass complete power for the implementation of monetary policy immediately to the new European System of Central Banks (ESCB). But the make-up of the ESCB's governing council is highly decentralized. It comprises six members of the executive board and the eleven governors of the participating central banks. This is in direct contrast to the balance of power in the Federal Reserve, which has operated so effectively since the 1930s.

2.5.1 The Latin Monetary Union

So far we have looked at monetary unions in which accompanying political unification guaranteed their continuity. Other attempts at union have not been so long lasting. One that is often cited as a bad omen for EMU is the Latin Monetary Union (LMU) established in the mid-nineteenth century.

As noted earlier, France at this time operated a system incorporating both gold and silver coins. France was the dominant economy of Europe and Belgium had linked its currency to the French system in 1832. In addition both Switzerland, upon political unification in 1848, and Italy, in 1861, linked their currencies to that of France, who was their major trading partner. Greece later

joined the system. This was formalized in 1865 into the Latin Monetary Union, which stipulated a fixed exchange rate between the member countries and the free circulation of each other's gold and silver coins throughout the area. No provisions were announced for paper money, which remained under the jurisdiction of the individual states.

Problems immediately arose with the practice of gold and silver coins circulating side by side, particularly when the market price of silver fell sharply in the 1870s, so the system effectively moved entirely on to gold.

However, the Union suffered from, firstly, the lack of measures regarding paper money and, secondly, the absence of convergence of national economic policies. The need to finance government spending, especially in Italy, led to the issue of inconvertible paper money, which undermined the maintenance of stable exchange rates. Because it was a system linking coinage only, the LMU was able to struggle on in some degree until its effective termination at the start of the First World War when all countries ceased fixing their coins to gold.

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Clearly this was an extremely limited form of monetary union. Countries' central banks remained fully independent of each other, and there was no attempt to co-ordinate economic policy. The experience was very much reflective of the problems of the time, namely those of basing a monetary system on precious metals, and accommodating the growing requirement for a system incorporating banknotes, rather than coinage alone. What we can conclude from it is that any attempt to form monetary union without political union is a much more problematical affair.

2.5.2 Scandinavian Monetary Union.

Events in Scandinavia saw the formation of a slightly more advanced type of monetary union. It was initially formed in 1872 between Sweden and Denmark, with Norway joining in 1875. At first the system involved the fixing of exchange rates and the adoption of a common coin, the Scandinavian crown (based on gold), to be used throughout the area. But it subsequently went further than the Latin Monetary Union by incorporating in 1885 each country's banknotes, which henceforth circulated freely in the whole area.

The union functioned smoothly for a while, aided by the fact that the three economies were similar in nature, and were linked culturally and linguistically. However, each country retained its own individual central bank, and gradually monetary policies began to diverge. The system effectively ended with the start of the First world war when all three suspended the convertibility of their banknotes, and the currencies began to drift apart, with the Swedish krona appreciating substantially against the other two due to rising inflation in Norway and Denmark. Attempts to restore the union after the First World War met with limited success, although it was not formally abandoned until 1931.

This episode demonstrates that monetary union is possible for an extended period even with separate central banks, but only so long as underlying economic conditions remain benign. In addition, proximity and cultural similarity, which assisted the flow of labour, were considerable advantages. But again this fell short of full monetary union and without policy co-ordination and/or political union it was doomed to fail.

2.5.3 Other Nineteenth-century Monetary Unions

Other attempts to link currencies included the short-lived German/Austrian Monetary Union, which was formed in 1857 and established the use of Prussian silver coinage throughout the area. This broke down quickly and formally ended when the two went to war in 1867.

Austria and Hungary in 1867 formed a monetary union incorporating a form of political union. The two states remained as separate entities with their own administrations and domestic fiscal policies. But they were both ruled by the same monarch and operated common defence and foreign policies. They shared the same currency, monetary policy and free trade area. This union remained in force until the political union broke up in 1918 and is an interesting example of political union sustaining a monetary union of unlikely partners.

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Mention should also be made of the classic period of the gold standard, which held sway briefly from the 1890s to 1914. By the 1890s the major industrialized countries had all moved their monetary systems on to gold. Under the gold standard as it operated at this time, each country's supply of money and credit would in principle rise or fall according to the inflow and

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outflow of gold as determined by their balance of payments, thereby maintaining stable exchange rates. The system was essentially run by the UK, which had become the dominant industrial and financial power. Since this was a period of general economic stability and prosperity the system functioned smoothly, but was effectively destroyed by the economic upheaval caused by the First World War. This was, however, a system to stabilize exchange rates only, with no accompanying moves to co-ordinate policies or move towards any form of monetary unification.

2.5.4 Belgium-Luxembourg Economic Union

Although normally regarded as part of Belgium, Luxembourg is actually a separate country. But for many years it formed an economic and monetary union with Belgium. This began as a customs union in 1922 and was formalized into a full monetary union in 1935. It was in fact the only attempt at monetary integration in Europe during the turbulent inter-war period. The two currencies have moved together ever since, until both became absorbed into the euro. Under the union, Belgian and Luxembourg francs were fully interchangeable, although Luxembourg francs were legal tender only in Luxembourg.

GDP in Luxembourg is only 14 billion euros, which Makes it one-fifteenth the size of Belgium. Luxembourg has always run its own fiscal policy, which has been in budget surplus for many years and government debt is only 7 per cent of GDP. Luxembourg also retained a 'monetary institute' to issue its currency, although monetary policy under the union was effectively run by Belgium.

Luxembourg is an entirely open economy with exports consituting 93 per cent of GDP Most of this represents trade with Belgium, and trade figures with the outside world are normally consolidated for the two countries. The economy is clearly dominated by that of Belgium, but has occasionally gone its own way: for example, GDP grew strongly in the early 1990s when the rest of Europe, including Belgium, was in recession. Inflation has normally been similar, but not identical, to that of Belgium but unemployment has traditionally been virtually non-existent, and is still only 2.4 per cent, less than one-third that of Belgium.

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The above is an example of monetary union on the lines of EMU, with two countries under one currency and one monetary policy but operating as

separate political entities with separate fiscal policies. This was clearly sustainable for a long period, and points to a successful precedent for EMU. However, it must be acknowledged that it operated under very special circumstances. Given its small size, Luxembourg must be regarded as merely an appendage to the Belgian economy, much the same as Belgium itself is to Germany. Consequently, it has been an easy path to follow, given the additional benefits of proximity and a shared language. It would be wrong to conclude that countries of more equal size, and more disparate structures, can form a monetary union quite as easily.

2.5.5 UK and Ireland

A similar system operated between the UK and Ireland for many years, until the Irish pound joined the EMS in 1979. The Irish state achieved independence from the UK in 1922, and from 1927 began to issue its own coins, with a one-to-one link with sterling, which remained legal tender in Ireland. A central bank was establi shed in Ireland in 1943, but monetary policy essentially followed that of the Bank of England.

The economy was dominated by the UK, although the extent of this gradually lessened as Irish trade increased with other countries. In 1926 the UK took 97 per cent of Irish exports; by 1979 it was down to 50 per cent. However, the economy remained very much in tune with that of the UK and interest rates closely followed developments in the sterling market.

This was a similar situation to that of Belgium-Luxembourg, with separate political entities, separate fiscal policies, but effectively one monetary policy and one currency. A major difference was that Ireland increasingly began to move away from the UK and exert its own independence, but until 1979 the system operated smoothly and efficiently.

However, this was another combination of very favourable circumstances. During the period of monetary union Irish GDP was only some 3-4 per cent of that of the UK. The mobility of labour between the two has always been extremely high. Again, it is easy for such a system to work if one economy is merely an appendage to a much larger one.

2.6 Other Recent Monetary Unions

Other recent examples which may be cited included the short-lived East African Currency Union, which comprised Kenya, Uganda and Tanzania from shortly after independence in 1967 until 1977. These countries remained separate politically, with their own separate central banks, and, as might have been expected from looking at previous examples, the union quickly broke down.

By contrast, the East Caribbean Currency Area, similarly formed by six tiny islands after independence in 1965, still survives. This has the advantage of one central bank to manage the East Caribbean dollar across the whole area despite the islands remaining as separate political entities with their own fiscal policies. Their small size and relative isolation perhaps explains its continued existence.

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Finally, the 'Franc des Colonies Francaises d'Afrique' (known as the CFA franc) has survived for some forty years, being a currency union of old French colonies fixed against the French franc. This is a system that has been entirely managed and guaranteed by the Bank of France and thus does not

really constitute a monetary union in its own right. Under EMU, the CFA franc will remain fixed against the euro and will continue to be managed by the Bank of France.

Having seen the historical development monetary integration globally, we at this juncture try to look at the evaluation of the convertibility of the national currencies in the ECOWAS following a research conducted by the ECOWAS headquarters. Except UEMOA Countries[1] CFA franc and the Gambian dalasi, ECOWAS national currencies remain regionally and internationally inconvertible. However, the member countries experiences summarized below indicate that all the countries' have taken significant steps to advance the process of making their currencies convertible or reducing the degree of inconvertibility of their currencies.

2.7 The Gambia

The Gambia is Currently operating a policy of total liberalization of its foreign exchange and trade regime. Both Current and capital transactions are open and Unrestricted. The policy of liberalization liberalized since 1986 and

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[1] Studies can not be undertaking in respect of Mauritania, Liberia and Cape Verde.

control laws were abolished in 1992. In January 1993 Gambia assumed IMF Article VIII obligation Of Current account convertibility. All restrictions on the import and export of domestic and foreign Currencies have been removed . No documentation are required for the purchase and sale of foreign exchange from individual or corporate customers by the authorized dealers in foreign exchange.

The country allows its exchange rate to be determined by the forces of supply and demand in a floating exchange rate system. The authorised dealers in foreign exchange include the Commercial banks and the Bureaux de Change although a dwindling parallel market is still in existence. Commercial banks are allowed to engage in all aspects of foreign exchange transactions without restrictions but the bureaux are restricted to the purchase and sale of foreign currency notes and coins, bank drafts, and travelers cheques for immediate delivery (i.e spot transaction) which is consistent with international practice.

Bureaux in Gambia are allowed to open and maintain accounts outside the Gambia and to transfer/receive funds trough payment instruments. They set their daily exchange rates by reference to the rates published by banks,

other bureaux and the parallel market rates. The rates displayed are generally indicative as the actual rates may vary slightly for different customers in relation to the changing pressures of demand and supply of foreign exchange.

The bureaux are required to submit daily returns of purchases and sales of foreign exchange; their buying and selling rates, and the working balances position to the central bank. Purchases from and sales of foreign exchange to commercial banks are to be shown separately to disclose the overall net inflows from the bureaux to the banking system in the format prescribed by the central bank.

The Currencies traded in the market include both hard Currencies, such as the US Dollar and the United Kingdom Pound Stealing, and soft currencies of some of the member Countries of ECOWAS, namely the CFA franc, Guinean franc and the leone. The dollar is the most demanded of the international curreneies, while the CFA Franc is the preferred regional currency for obvious reasons. The Gambian currency (dalasi) is reportedly acceptable for transactions in Sierra Leone, Guinea Bissau, Senegal and Mali i.e the countries that Gambia has significant trading relationship with.

The Import/export of dalasi is unrestricted.

2.7.1 Ghana

In Ghana, considerable progress has been recorded with regard to the policy of trade and payments liberalization. The current account transactions have been liberalized while fears of capital flight are being expressed over the total liberalization of the capital account. Besides removing restrictions on current account transactions, the country has also acceded to the current account convertibility obligations of Article VIII of the IMF Articles of Agreement.

Non-tariff barriers are no longer imposed on import trade but there is some non tariff barriers of a monetary nature such for non - residents to settle their hotel bills (some class of hotels), purchase air tickets, pay airport and port charges in foreign convertible currencies

With respect to travellers' access to foreign exchange the following regulations are applied:

a. All residents travelling abroad are permitted to carry a maximum amount of US$3000 or its equivalent in other currencies in cash or travellers cheques as personal travel allowance. Any foreign currency in excess of that amount requires documentary justification to be made to the authorised dealers.

b. In addition to personal travel allowance, resident travellers are permitted to carry a maximum of US$ 5000 or its equivalent forex in bank draft or travellers cheques for direct purchases abroad.

c. Regarding import/export of domestic currency only a maximum of C5000 is permissible to a resident travelling abroad which in effect imposes a ban on export/import of national currency.

d. Travellers arriving in Ghana are required to make a declaration of their forex if they intend to take back all or part of It Subsequently but there is no restriction on the importation of foreign currency Into the country.

e. Foreign Currency brought into the country by travellers may be exchanged into cedi at any local authorized dealer, banks or forex bureaux.

Ghanaians and non- Ghanians residents abroad are allowed to remit foreign currency home through Bank of Ghana's account with any of the correspondent banks; such proceeds may either be credited to foreign accounts with designated banks in Ghana or released to beneficiaries in the respective currencies at the option of the remmitters/beneficiaries.

The authorised dealers in foreign exchange include the banks and foreign exchange bureaux. Banks as authorised dealers have been empowered by the central bank to undertake the following foreign exchange transactions provided they render monthly returns to the Bank of Ghana:

a. foreign bills for collection;

b. foreign investment income, technology transfer entitlement and other services payments;

c. over the Counter purchases of foreign Currency for personal and business travels,

d. import for personal use; arid

e. other imports Including second hand goods.

The treatment of export proceeds have been liberalized from a position of total surrender as follows :

a. Non traditional exporters -are allowed to retain 100 percent of their export proceeds in foreign accounts in any local bank of their choice and to negotiate their forex at competitive rates with any bank of their choice.

b. Forex proceeds from export of cocoa, gold invisible receipts are however still subject to surrender; gold is subject to partial surrender

2.8 Establishment and Operation of Foreign Exchange Bureaux

A registration and an annual renewal fee of US$1000 or its equivalent in specified hard currencies is, respectively required to operate a bureaux de change. It is mandatory for each licensed forex bureau to open a foreign exchange account with an authorized dealer bank and maintain a minimum

balance of US$5000 or its equivalent 'in any of the currencies listed 'in the account.

A forex bureau applicant must be of Ghanaian nationality. A licensed bureau must maintain a mandatory minimum deposit of US$5000 or its equivalent forex with the Bank of Ghana but is not allowed to maintain a foreign account in any bank. Every forex bureau must maintain a cedi account with a local bank.

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Bureaux transactions are subject to the following guidelines

a. engage in spot transactions only;

b. purchase and sell foreign exchange to the public without restriction;

c. purchase travellers cheques and drafts from the public and credit its Foreign Exchange Account with a bank for collection of the proceeds;

d. issue foreign exchange encashment receipts or foreign exchange sale receipts obtainable from the Bank of Ghana for all transactions;

e. Should not trade in any inconvertible Currency;

f. Should conduct cash transactions in any of the following convertible Currencies United States dollar, UK Pound, Deutsche mark, Canadian dollar, French franc, Dutch Guilder, Italian lira, Japanese yen, CFA franc, Belgian franc, and Swiss franc'

g. each forex bureau shall prominently display its forex dealing rates (buying and selling rates) at its immediate premises;

h. each foreign exchange bureau shall submit monthly returns of its operations, (total purchases and sales of forex and draft, foreign currency stock position at close of business on the last day of the month) monthly;

i. bureaux are not authorised to engage in forex transaction or open any account for any customer in any currency or engage in off-shore business or forex correspondence relationship or establishment of letters of credit or in any form of forex transfer activities either directly or indirectly and

j. commercial banks forex bureaux only may open account with banks abroad for the sole purpose of receiving remittances on behalf of customers.

Residents and non-residents are permitted to open and operate foreign exchange account. Such residents accounts are used to receive and pay out foreign Currency locally while its non- residents accounts are used to transfer foreign currency in and out of Ghana.

The exchange rate of the cedi is market determined under a floating exchange rate system. The bureaux de change fix their dealing rates by taking into consideration the interbank and Bank of Ghana foreign exchange rates as well as the trends of demand for and Supply of forex.

A Survey of a sample of commercial banks in Ghana confirmed that only a negligible proportion of the payments for intra-ECOWAS export/import trade pass through the system such payments obligations are instead settled directly by bank notes obtained from the parallel markets as well as from bureaux.

2.8.1 Guinea

The current situation in Guinea indicates a considerable degree of trade and foreign exchange liberalization. The country has already acceded to the Current account convertibility obligations of Article VIII of the IMF Articles of Agreement, thereby liberalizing its current account transactions.

The existing non- tariff barriers to trade , which are non-monetary in nature, are imposed in the form of an import prohibition list drawn up on the basis of health and Security reasons.

The authorised dealers in foreign exchange include the commercial banks and the bureaux de change. Although the central bank maintained that exchange control on current account has been removed, the commercial banks insist on the persistence of restrictions on remittances for import transactions. Further inquiries reveal that these restrictions are administrative in nature, rather than direct exchange control., They involve documentary requirements as well as bureaucratic delays. The bone of contention boils down to the standard documentary requirements for international trade and the widespread

practice in developing countries of imposing pre-shipment inspection of import goods.

The foreign exchange liberalization measures in place in Guinea include

a. freedom of residents and non-residents to open and operate foreign Currency accounts;

b. freedom to bring in foreign Currency into the country without restriction;

c. freedom of Individuals and corporate institutions to obtain foreign exchange from the authorized dealers without reference to the central bank.

The persisting restrictions, however, are on capital transactions including restrictions on the import/export of domestic currency. For instance, nobody is allowed to take out or bring in more than 5000 Guinean franc into the country.

As authorized dealers, the commercial banking system in Guinea handles only transactions in hard currencies including the CFA franc and therefore do not deal in regional currency notes. However, the bureaux are permitted to deal in regional currencies and reportedly deal in regional currencies which include CFA franc, Naira, dalasi and leone.

The bulk of transfers and payments involved in intra -ECOWAS trade by Guineans is undertaken through the informal financial or bank-notes trading sector in which de facto convertibility of the regional currencies involved is assured.

The country adopts a floating exchange rate system which allows the Guinean franc rate to be determined by the market, with the US dollar as the reference international currency.

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2.8.2 Nigeria

The Nigerian economy has been progressively liberalized by the introduction of a Structural Adjustment Programme (S.A.P.) since 1986, which essentially sought to deregulate the economy and entrone market forces in the

determination of prices in both the financial and real sector markets in order to enhance the efficiency of resource allocation. In recent years (since 1995) the macro economic policy stance has been that of guided deregulation which enables the authorities to address observed market imperfections.

The liberal trade regime ensures that importation is undertaken under Open General Licence (OGL) system. However- non -tariff barriers to imports as well as some restrictions on exports are imposed. The import prohibition list has been abolished. The export prohibition list contains only scrap metals, unprocessed rubber latex and rubber lumps, although export licensing also constitute a restriction on exportation.

The Nigerian currency the Naira, remain inconvertible although definite steps have been taken to increase its degree of convertibility. The export/import of the Naira remains prohibited. Resident travellers are allowed to carry only a maximum amount of NI,000.00 for settlement of local expenses immediately on Nigeria from an overseas trip. All contracts entered into in Nigeria are to be denominated in naira only.

Although Nigeria has not yet formally acceded to IMF Article VIII which imposes the obligation of current account convertibility on member Countries, she has abolished (1996) the Exchange Control Act of 1962 under which a restrictive foreign exchange regime was applied. It is therefore correct to argue that the conditions for attaining the status of IMF defined current account convertibility has been met in Nigeria because exchange control restrictions on payments for current account transactions have been eliminated.

The quantitative limits on foreign travel allowances have been removed although there is some administrative control exercised by banks as authorised dealers; the banks must ensure that resident travellers justify amount of foreign currencies demanded for travel allowances

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There has also been appreciable liberalization of capital transfers. Trade-related capital transactions are liberalized but other capital account transactions are subject to controls. Dividends and profits can be remitted without hindrance but subject to documentary evidence. Inflow of foreign exchange is permitted without any restrictions but official declaration is

required for statistical purposes and to facilitate subsequent repatriation if and when required.

The liberalization of foreign exchange transactions has also made it possible for residents and non-residents to open and operate domestic account in convertible foreign Currencies. Banks are allowed to maintain two types of foreign currency accounts (Domiciliary Accounts) namely Export Domiciliary Accounts and Ordinary Domiciliary Accounts. The export domiciliary accounts are those maintained for exporters of non oil commodities. Non-oil exporters are free to pay their foreign exchange earnings into the domiciliary accounts or sell them to authorised dealers at market determined exchange rates.

Payments for exports from Nigeria is by means of letters of creditor any other approved international mode of payment but the proceeds are to be repatriated within 90 days of the date of shipment of the goods, but not to be surrendered.

Bureaux are allowed to deal in both regional and non-regional currencies; they are required to render monthly returns of their transactions; determine their dealing rates which must be displayed in their offices; maintain foreign currency as well is local currency accounts in the commercial banks and in addition maintain mandatory deposit of N500,000 per each bureau in the Central Bank of Nigeria.

The documentation requirements for all visible and invisible trade transactions have been reduced to a prescribed minimum, while all authorised dealers are required to render periodic returns on their foreign exchange transactions on prescribed formats.

Although the modern sector foreign exchange market treats all regional currencies as inconvertible and consequently do not trade in them nor quote their exchange rates in their daily exchange rate charts, the parallel market which is quite active deal, in a number of ECOWAS regional currencies, such as the Ghanaian Cedi and CFA franc.

2.8.3 Sierra Leone

In Sierra Leone, as in other ECOWAS member Countries, the economic policy matters have also undertaken an appreciable degree of liberalization of exchange controls as well as transactions in the real and financial sector markets. The Current account transactions have been fully liberalized while a partial liberalization of capital account transactions has also been effected.

In welcoming foreign investment into Sierra Leone, the government allowed free repatriation provided it could be established that such capital was imported and remains uneroded. Application for repatriation of such capital must be accompanied by

a. relevant exchange control permission for the capital to be brought into the country
b. banker certificate evidencing the amount received;
c evidence to show that the capital still remains intact; and
d. tax certificate indicating an up-to-date settlement of income tax liability by the applicant.

Loan capital imported into Sierra Leone can be repatriated together with the interest provided there is documentary evidence of permission of Bank of Sierra leone to raise the loan.

In general, commercial banks as authorised dealers can process and approve requests for current international transactions in foreign currency for transfers and remittances abroad without reference to the central bank. Forex could be provided for payments or transfers relating to all current international transactions permitted in the country without limitation on proof of the bona fide nature of the transaction.

Exporters are no longer required to surrender foreign exchange earned to the Bank of Sierra Leone but they are required to:

a. repatriate proceeds of their exports to the country within 90 days of the date of the export; and

b. complete an export form to be endorsed by a commercial bank and Supported by documentation Such as original invoice, preshipment inspection certificate and tax clearance certificate.

Pennants for imports under letters of credit made in the name Of the Supplier must be supported with the following documents:-

a) complete exchange control form A1;

b) original proforma invoice; and

c) current tax clearance/certificate of income;

and after payment of the invoice value by the negotiating bank, commercial banks are authorised dealers must obtain from the importer within 90 days;-

d. original suppliers final invoice;

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e. original bill of lading/airway bill; and

f. pre-shipment inspection certificate.

Invisible payments (travels, educational expenses, maintenance allowances, medical expenses abroad, profits, loan interest repayments, loan authorization repayments etc.) have been fully liberalized but subject in some cases to minimum administrative guidelines/controls.

Foreign Currency accounts are permitted as follows

a. Every person may operate a forex account at a commercial bank 'in Sierra Leone;

b. The accounts will be operated in convertible currencies and may be credited with the proceeds of export of goods and services and transfers from overseas and other sources.

c. Funds held in the account may be used to pay school and college fees import goods, settle medical and travel bills and other transactions and may be converted into Leones when required by account holders.

d. All inward remittances by non residents can be transferred in external account without restrictions.

e. All documented export inward remittances endorsed by a commercial bank can be externalized Subject to the general regulations on payment abroad for goods and services.

f. Bureaux foreign currency accounts are to be used solely for their day-to-day operations; a forex bureau can maintain more than one foreign currency account; and

g. Remittances from bureaux foreign exchange accounts may be made for spot transactions through commercial banks subject to the regulations governing payments for goods and services.

Foreign Exchange Bureaux Must obtain licence (renewable annually) to purchase and sell foreign exchange in cash. They can purchase but not sell travellers cheques and can only engage in spot transactions; all transactions must be receipted.

Bureaux are not allowed to engage in the following activities; open foreign exchange account outside Sierra Leone; sell travellers cheques; engage in forward foreign exchange transactions; open account for any customers; establish letters of credit, and engage in any other banking business.

The foreign exchange bureaux are allowed to deal in all foreign currencies, both regional and non-regional. The regional currencies traded include FCFA, Guinea Franc, Dalasi, Naira and Cedi.

A bureau de change is required to maintain a minimum balance US$5000 in its forex account with a commercial bank

Travellers can take foreign exchange Out of Sierra Leone up to US$5000 without restriction but a resident on departure from the Country should declare its forex holding if It is in excess of US$5000 and justify it. Non-residents can take forex Out upto to the amount brought in while incoming non-residents are advised to disclose amount of forex brought in if they anticipate Subsequent repatriation in excess of permitted allowances.

It noteworthy that the country has already assumed obligations for current account convertibility under article VIII of the IMF articles of Agreement (January 1996).

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The country imposes some non-tariff restrictions on exports in the form of prohibition for logs, quota for plants an animals and licensing for minerals but no such restrictions are imposed on imports. Other monetary restrictions on international payments, include; the requirement to settle airport taxes in foreign currency, and restriction on the export/import of domestic currency

with the exceptio maximum of Le 50,000.00 for inward transaction on return from an overseas trip.

The exchange rate is market determined under a floating rate regime major players are the central bank, the commercial banks and the bureaux de change.

2.8.4 Uemoa Countries

Within the geographical region of ECOWAS, the UEMOA group of eight Countries operate side by side with ECOWAS, a monetary and economic union with a common currency, the CFA franc which has been adjudged as internationally convertible and a common central bank (BCEAO). UEMOA currently embraces the republic of Benin, Burkina-faso, Cote d' Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

The common currency of UEMOA is pegged to the French franc due to historical/political ties and persisting economic relationship with France. The issue that is of major interest to this study is the arrangements and policies that have made the CFA Franc retain international convertibility. The international

convertibility of FCFA is guaranteed through the French franc to which it is linked and by the obligation of France to protect the convertibility.

UEMOA Countries operate a liberal commercial policy under which all restrictions on Current account have been removed thereby enabling the Countries to accede to the Current account convertibility obligations of Article VIII of IMF Articles of Agreement. However non-tariff barriers in the form of import/export licensing and prohibitions exist between the union amid the rest of the world which include other ECOWAS countries outside UEMOA.

Although the liberation of the trade and payment system created an environment in which declaration of foreign exchange inflow is not required of the holder. For instance, a non-resident who imports foreign currency into UEMOA countries is required to provide documentary evidence if he wants to repatriate it subsequently, subject to the requirement that amount to be repatriated should not exceed what was originally brought in by way of capital inflow.

There are at present no foreign exchange bureaux in any of the UEMOA countries approved although plans are at an advanced stage to set them up.

Like other ECOWAS Countries, there are informal or parallel foreign exchange markets in these Countries which engage in trading in regional as well as in extra regional Currencies. One trader in the informal market disclosed that they handle all types of payments and transfers through a network of traders based in all ECOWAS Countries which was progressively built up over a number of years.

Correspondent banking relationship between UEMOA states and other ECOWAS countries is not widespread, such relationship is more developed between the UEMOA commercial banks and their counterparts in france and other European countries.

2.8.5 Convertibility Arrangement Between UEMOA and France

The UEMOA monetary union a franc monetary zone Whose currency is anchored on the French Franc. Three major characteristics underpin the convertibility guarantee agreements, the pegging of the, currency to the French franc and free transferability of funds.

To ensure convertibility between the FCFA and the FF and guarantee the value of each currency of franc area in West Africa, the French Treasury opened in its accounts on behalf of the Currency issuing agency (later transformed into the central bank i.e. BCEAO). This was accomplished by a convertibility from the French Treasury, established by monetary cooperation conventions signed between each member country and France. Article I of this agreement signed 4 December 1973 provided for France's Support of UEMOA to help ensure free convertibility of Its Currency. This unrestricted convertibility guaranteed by the French Treasury made FCFA internationally convertible. The French Treasury pledged to supply, through operations account mechanism, the quantities of French francs that will be required by UEMOA Countries for the settlement of obligation with the area or external payments in hard Currencies.

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The FCFA is pegged to FF also by signed conventions between member countries Of UEMOA and France. Article 2 of the monetary cooperation agreement signed between UEMOA member Countries and France states that transactions between the French franc and the Unions Currency are to be effected at a fixed rate, on the basis of tie parity in force. Thus changes in the par values between the FCFA and FF may only be effected through an agreement between the areas member Countries and France. The pegging constitute a principal element of the areas external credibility. For nearly 46 years (1948-1994) the FCFA vis-a-vis FF exchange rate remained unchanged at FF1 = FCFA 50 unti it was devalued on 12 January 1994 by 50% to 1 FF = FCFA I00. The devaluation was Justified by two factors (a) the ailing economies of franc zone Africa countries and (b) the need to correct the overvaluation of the currency.

Free transferability within a monetary area is one of the basic criteria that govern the existence of such an area. This implies that within the area, transfers are totally unencumbered, whether they are for commercial transactions or capital movements.

A recent restriction to the principle of free transferability of capital was undertaken with the decision made by heads of state of UEMOA countries in 1991 to Suspend the purchase of FCFA notes exported beyond the union area.

2.9 Evaluation of Wama Clearing Mechanism

Within the framework of ECOWAS Monetary Cooperation Programme (EMCP) adopted by the Heads of State of the region in 1987, a short run objective of improvement and strengthening of the WACH mechanism to facilitate increased trade and payments transactions through greater use of national currencies was mandated.

The policy measures designed to achieve the above objective included

a) A negotiated settlement of the outstanding payment arrears in WACH to be undertaken by the creditors and debtors affected.

b) The extension of the range of eligible products and transactions to be channel through the mechanism;

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c) The establishment of a limit at the level of WACH (now WAMA) secretariat and the strengthening and revitalizing of the unit at the ECOWAS secretariat to undertake the compilation and dissemination of information relating to intraregional tradeable goods and services;

d) The introduction of a credit and guarantee fund and new payments instruments Such as the West African Travellers cheques and bills of exchange into WACH transaction systems

e) the initiation of measures to ensure that settlement obligations emanating from WACH transactions are promptly made.

Although spirited efforts have been made to pursue the above objectives, it Would appear that no significant progress has been recorded within a period of over a decade in dealing with what was described in 1987 as short run objectives. On a positive note however, WACH has been transformed into a specialized monetary agency of ECOWAS under a new name of West African Monetary Agency (WAMA) although all efforts to reactivate the multilateral

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clearing mechanism in the pursuit of the objective of enhancing the use of local currencies in intra-regional trade appear to have proved abortive.

The situation confronting the WAMA mechanism may be summarized as a crisis of confidence in which

a) the major creditor central bank has discouraged or suspended transactions with the defaulting debtor banks with a view to scaling down its exposure in the system;

b) the banks with accumulated settlement arrears or permanent debtor. positions also suspended further utilization of the mechanism; and

C) all other member central banks practically reduced the volume of transactions allowed to pass through the system due to balance of payments constraints.

In view of the foregoing analysis, any efforts at improving the performance of the clearing mechanism must address the problem and ensure a renewed commitment on the part of the member central banks to respect the

rules of the game. It Is only the introduction Of new instruments and facilities such as the ECOWAS travellers cheques and the incorporation of a credit and guarantee fund would have the facilitate uplifting the services of the clearing house mechanism.

Even then, it would appear that the existing clearing house mechanism cannot file any significant impact on promoting the use of local currencies in intra-regional transactions under the transformed economic environment in the region, thanks to implementation of structural adjustment programmes. The widespread liberalized payments and trade regimes in the region coupled with the legal inconvertibility payments and trade regimes in the region coupled with the legal incertibility of most of the local currencies have induced greater recourse to both the formal and informal currency markets by the economic operators for their payments and transfer services for their intra-regional transactions. This makes it imperative to take the logical step of making all ECOWAS national currencies convertible and acceptable for intra-regional transactions. Thus development will naturally phase out WAMA clearing mechanism by making it redundant.

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The policy and institutional reforms undertaken so far in the region should be extended to include a further liberalization of the medium of exchange by permitting the region's currencies to be traded freely by the banks and bureaux de change in all the member countries. Thus implies that bureaux should be established in the countries where they are currently non-existent. Events in the region and elsewhere 'in the fast shrinking world strongly indicate the need to go beyond a clearing house mechanism and move into greater monetary cooperation under a framework of currency convertibility and macroeconomic policy liberalization in the region, in order to pave the way for the ultimate goal of achieving a single monetary zone characterized by a single currency and a centralized monetary authority for ECOWAS.

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CHAPTER THREE

COMPARATIVE REVIEW

3.1 Introduction

This chapter further look at the literature review, and try to present various thought on comparative basis, followed by some critique of the literature itself and subsequently tried to locate the study under a solid theoretical foundation and supported by some empirical evidences.

*[2]The goal of monetary union and a single currency in ECOWAS has no doubt been influenced by some perceived benefits from such an arrangement. It should be mentioned that the appropriate domain of a currency may not necessarily correspond to national boundaries. Also, economic non-homogeneity exists within a single country, and monetary independence and a flexible exchange rate for every region of a country may not necessarily lead to desirable consequences. In the same way, economic non-homogeneity in the ECOWAS sub-region should not preclude the use of a single common currency. However, considering the standard functions of money, and the fact that ECOWAS comprises sixteen independent States, the question is still

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* The unpublished work of M.B. Aigbokhan, Dakar 11 - 15 January, 1993 Integration Conference is extensively used.

relevant as to what should be the appropriate domain of a common currency in the sub-region.

3.2 Benefit of Monetary Union

One approach to answering this question tries to single out a crucial economic characteristic which supposedly delineates the appropriate domain. This approach, which is referred to as the theory of optimum currency areas, offers important considerations as to the conditions under which a country can join a currency group with benefits, and suggests how countries should be grouped into small number of currency areas. This is the approach adopted in this study to assess the feasibility of a single common currency for ECOWAS. But as will be argued below, no one economic characteristic would be adequate for delineating optimum currency areas. Therefore, a number of characteristics will be considered in the study.

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Section two of the presentation briefly discusses some of the benefits of monetary union. Section three reviews the theories of optimum currency areas, highlighting some of the limitations of each of the theories to show why a particular theory may not be superior to others, and why satisfying a number

of the conditions may make monetary union feasible. Section four examines the European Community (EC) experience at monetary integration in the light of these theories. Section five assesses the ECOWAS economy against the background of these theories to find out whether the conditions for a single common currency are present, and if not, what steps would need to be taken before such a union could become a realistic preposition. Section six presents some conclusions.

3.3 Benefit of Monetary Union

The first benefit derives from the standard function of money as a medium of exchange. A common currency eliminates the costs of money conversion and forward cover required under a flexible exchange system. This way, a common currency ensures a boost to trade by eliminating uncertainties about exchange rate fluctuations and reductions in administrative costs (time and money) for business. Furthermore, a single regional currency would tend to fluctuate less against third country currencies than individual currencies, and thereby also boosts inter-regional as well as intra-regional trade.

Secondly, under a common currency, speculative capital flows, which often frustrates monetary control efforts, are absent. Thirdly, there would be allocative efficiency. Removal of all forms of capital controls and differing treatments of financial capital would lead to free movement of capital. Similarly, wages expressed in terms of a common currency should result in a better allocation of labour, as labour moves from areas of low marginal productivity to high productivity areas.

Fourthly, there would be savings on foreign exchange reserves as members no longer need to keep foreign reserves for transactions within the union or to manage intra-region exchange rates. And fifthly, monetary integration is likely to accelerate fiscal integration. This could derive from efforts to eliminate unemployment or depressed regions through public expenditure coordination, especially when it is recognized that if such expenditure is concentrated in one region or country it may induce migration from other regions or countries and thereby defeat the purpose of the expenditure.

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Monetary integration in not without its costs. The most obvious is the loss of autonomy in monetary policy, and thereby a loss of a key economic policy instrument, especially when counter cyclical monetary policy might be required. Furthermore, the jointly controlled monetary policy would often be designed to serve the majority interest. Also, loss of exchange rate as a policy instrument for external balance violates the Tinbergen rule which requires that for effective policy making there should be as many instruments as there are objectives or targets.

Monetary integration may also lead to a loss of full autonomy with regards to fiscal policy as an instrument for influencing domestic employment. It could be argued though that where coordination of objectives and policy is full there may be no need for additional individual effort on employment.

Yet another cost is that countries are no longer free to choose their own inflation rates. Different inflation preferences may be influenced by short run Phillips curve or benefits of inflation tax. Common inflation rates, which monetary union entails, means loss of such preferences. For example, some countries may prefer relatively high inflation rate (and low unemployment)

which some may prefer low inflation (and high unemployment) rate. Similarly, some countries may prefer high inflation rate since inflation is a form of tax on money.

In any case advocates of monetary integration often argue that the benefits do outweigh the costs, and as such it is desirable, but even with that, the ECOWAS project have to also be located within the general theory of optimum currency areas.

3.4 Theories of Optimum Currency Areas

Mundell (1961) proposed high degree of factor mobility as a condition under which a region could constitute a currency area. The basic idea is that it is worthwhile for a group of independent countries to adopt a common currency when factors are highly mobile among them. If a country is in a monetary union and faces a decline in demand for its products which pushes item balance of payments into deficits, high capital mobility will enable it to finance its deficits without the need for an exchange rate depreciation. Also, high labour mobility will enable deficit countries to deflate their economies

without fear of a higher unemployment level, since labour can migrate to other countries within the union.

Three immediate problems may be identified with this criterion. Firstly, the underlying analysis assumes that payments deficits are caused by a demand shift. Experience since the 1970s shows that external shocks and structural factors which result in differential inflation rates between countries have been the major causes of payments deficits. In such a situation factor mobility appears not capable of tackling payments deficits. Secondly, a high degree of factor mobility is not likely, even where there are no legal barriers, given cultural, ethnic, social and political differences among countries. Just as language and cultural barriers, may limit labour mobility, so also can differences in socio-political attitude towards foreign capital limit capital mobility. Thirdly, even if factor mobility were possible, resultant regional disparities due to selectivity of factor mobility may make 'monetary union based on this criterion politically unacceptable. It, therefore, would seem that high degree of factor mobility would not be a very useful criterion for determining an optimum currency area. This is why some have argued that the country remains the optimum currency area, and the United States of America

has been cited as a typical case, Feldstein (1991) and Frenkel and Goldstein (1991).

Mckinnon (1963) proposed degree of openness as a criterion. The more open an economy, as measured by the size of its tradables to non-tradables sector, the more beneficial it is to join a union. The rationale is that if the economy has a large currency untradables sector it will be more vulnerable to inflation from a depreciating currency and unemployment from an appreciating currency. For this reason, exchange rate adjustment is not desirable. In other words, the more important trade is for the country the more it stands to benefit from the introduction of a common currency with its trading partners. Also, the greater the share of intra-regional trade, the greater the area will benefit from the reduction in transactions costs associated with use of a common currency.

This criterion would seem attractive as a basis of forming a currency union, given the principal objective of forming an economic community, and which having a common currency enhances, namely, to boost international trade and thereby realize the potential benefits of trade for growth and development. However, intra-union terms of trade must be mutually

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favourable to members, and there would need to be an improvement in union terms of trade vis-a-vis non-union members for this to be realized. In this respect, as shall be argued below, this criterion is, a necessary but not- a sufficient condition for determining a currency union. The important point, nonetheless, is that for the criterion to be really useful there has to be a high degree of intra-union trade.

Degree of product diversification is another criterion that has been proposed. Kenen (1969) suggested that the more diversified a country's range of imports and exports the more it will benefit from monetary union. A diversified economy has less variability in its exports earnings and import expenditure, and the more stable its balance of payments. Accordingly, there will be less need to resort to exchange rate changes to maintain external balance.

This criterion is similarly attractive and, like the openness criterion, it is not a sufficient condition. An economy may be quite diversified, but unless it also engages in a high degree of international trade it may not benefit fully from joining a currency union. Similarly, a country may have a high degree of

openness, unless its products are sufficiently diversified it may be subjected to country-specific shocks and therefore not benefit fully from currency union.

The structure of shocks hitting the area has also been proposed. The argument is that the more asymmetric or country specific are the shocks hitting a country, the greater the costs of abandoning flexible exchange rates. In other words, when the demand shock that hit a group of countries are similar, it is worthwhile for them to form a currency union, Feldstein (1991) and Pilbeam (1992). Similarity of demand shocks means that there is little to be gained by changes in real exchange rates within the currency area, and the appropriate monetary policy would be the same for all the countries. Where demand shocks are asymmetric, monetary union is feasible only when factors are highly mobile. But as has been argued above, factor mobility is quite limited between countries. It should be mentioned that although there may be similarity in demand shocks hitting a group of countries, the effects may differ, given inevitable differences in economic structure, which may be historical and do take time to rectify. This suggests why this criterion may also not be a sufficient condition for forming currency union.

Degree of policy integration is another criterion that has been proposed. Under this criterion, suggested by Tower and Willett (1970), similarity of policy attitudes of members is relevant in making a group of countries a successful currency area. That is, similarity in attitude towards inflation, unemployment and growth will encourage policy co-ordination. This criterion is attractive because similarity in policy attitude is most likely to also lead to convergence in economic performance. This would eliminate differences in inflation rates, which are often a source Of Payments disequilibrium, which in turn eliminates the need for exchange rate variations to correct such imbalance. It is in this respect that the proposition by Haberler (1970) and Fleming (1971) of similarity of inflation rates as a criterion becomes relevant.

Lastly, wage-price flexibility has similarly been proposed. If a country has a high degree of real wage rigidity, nominal exchange rate changes will be of little use in attempting to alter employment and net exports (see Frenkel and Goldstein (1990)). But real wage flexibility is more desirable if competition is to be encouraged, since completion promotes efficient factor use. From the stand point of this paper, therefore, this criterion would seem not very useful for proposing a currency area.

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To sum up, the literature on optimum currency areas provides a useful guide in determining whether a group of countries should form a currency union. However, it is clear from this review that emphasizing one particular criterion is hardly sufficient grounds for justifying currency union. An index of the various criteria has been suggested, as a solution, Pilbeam (1992). But there is still the problem of determining what weight to assign to each criterion, and the total index value that would justify membership of a currency union. Similarly, Goodhart (1975) has emphasized the need for a high degree of social cohesion as a crucial determinant of the size of a single currency area in the real world rather than any clear-cut economic criterion. But this also faces problems similar to those of an index. Besides, such a view tends to imply the non-usefulness of the optimum currency areas theories.

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3.5 The European Monetary Union

The EC to date remains the most advanced attempt at monetary integration. Although some have argued that the motive has been more political than economic, Feldstein (1991), there appears to be evidence of economic benefits derivable from monetary integration in the EC. For example, it has been estimated that the direct savings in transactions costs

linked to adoption of a common currency could amount to about one-quarter to one-half of one per cent of EC GDP, and even larger (one-quarter to one-half of one per cent of EC GDP, and even larger (one half to nine tenths of one percent of the GDP) for small open economies and for countries with as yet relatively unsophisticated financial markets.

To fully appreciate the present level of achievements in the move towards monetary union and the relevance of the optimum currency areas theory in this process, it is necessary to briefly trace the history of the EC.

The EC started off in 1952 as a "common market" arrangement involving Belgium, France, Italy, Luxembourg, The Netherlands, and Western Germany. These six formed the European Coal and Steel Community (EC & SC), in which tariffs normally placed on these imported products between the members were eliminated.

The success of the EC in boosting trade led to the creation of the EEC, which was formalised by the Treaty of Rome in 1957, in which all goods were now covered. The main concern of the Treaty was trade liberalization and

factor mobility, and the establishment of a common commercial policy. The EEC was enlarged in 1972 with the ascension of Denmark, Ireland and UK, and again in the 1980s with the ascension of Greece, Portugal and Spain.

The EEC decided in 1969 to pursue a complete union. The Warner Commission was set up to examine the feasibility. The Warner Report (1970) advocated that within ten years there should exist between members fixed exchange rate, and members were to pursue a common monetary policy, a single currency for the community, and irrevocable convertibility of member currencies with one another. In addition there should be a complete liberalization of all capital movements and a common central banking system to be established.

As a first stage in the process, the 'snake' agreement was reached, in which from 1972 members were required to keep exchange rate fluctuations within designated margins of 2.25 per cent on either side. The 'snake' agreement was however, abandoned following the 1973/74 oil price shock which caused members to abandon the margins as a result of divergent inflation rates.

Then came the European Monetary System (EMS) which was introduced in March, 1979. The EMS involved the harmonization of exchange rates through cooperative intervention by members in their foreign exchange markets to minimize exchange risks in their trade relations and allowed for margins on either side within which exchange rates could vary, although wider margins (6 per cent) were allowed for weaker currencies.

Worldwide economic recession of 1980/82 resulted in trade barriers still being imposed in the EC. This meant that competition was therefore not fully in operation as was expected under the monetary integration arrangements. Slow growth in the EC in the early 1980s and strong competition from the USA and Japan renewed interest in further integration. The result was the Single European Act of 1985, otherwise Europe 1992, designed to eliminate all barriers to trade and movements between members by the end of 1992.

The Delors report (1989), commissioned to examine the feasibility of further monetary integration, proposed a monetary union arrangement under which members would share a common monetary policy designed by a unified

central banking system and a single currency to replace the twelve currencies. The proposed EMU is to be realized in three stages.

Stage one would aim at a greater convergence of economic performance within the existing institutional framework through policy coordination. For this purpose, the Exchange Realignment Mechanism (ERM) was seen as a pre-condition. Already some progress in compliance has been made on stage one. For example, Spain joined the ERM in June 1989, adopting 6 per cent margins. United Kingdom did the same in October 1990. Italy adopted the narrowed margins in January 1990 and abolished the remaining capital restrictions in May 1990. France abolished these restrictions in January 1990, ahead of the July 1990 deadline set in the 1998 EC directive. Belgium and Luxembourg ended the dual exchange rate regime for current and capital transactions in March 1999.

Stage two will be the setting up of the European system of Central Banks (ESCB) and eventual common monetary policy. Stage three would involve irrevocably fixed change rates, common regional policies, and binding

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macroeconomic policy rules, and finally the introduction of a single common currency.

From this brief historical development of the EC and its move towards EMU, the question arise as to whether the EC currently comprising twelve countries could constitute an optimum currency area. In other words, how do the criteria of optimum currency areas apply to EMU?

The limited relevance of the factor mobility criterion in determining optimum currency area has been pointed out above. Specially in the case of the EC, for example, Feldstein (1991) observed that "Labour mobility among European nations will inevitably be limited for a very long time to come by differences in language and by a culture that, unlike that of the United States, regards geographical mobility with suspicion." Similarly, Frenkel and Goldstein (1991) observed that "as regard labour mobility, Europe would seem to be disadvantaged.". The authors reckoned, using a ball park estimate of labour mobility (i.e. the population that changes residence), that labour mobility in the EC is perhaps only a third or a half as high as within the US. They also reckoned that the higher dispersion of unemployment rates in Europe

is consistent with a lower labour mobility. The authors concluded that although labour mobility may now rise as exchange rate uncertainty falls in an EMU, the inhibiting influences of language and cultural difference s would not but be felt. It may be added that political attitude change really slowly, and because of this the historical attitude towards the Germans and Spaniards in some EC countries still reflects that of resentment. So, on the basis of labour mobility, EC would not qualify as an optimum currency area. Similarly on capital, attitude towards foreign capital has not been one of total acceptance. The associated technology and labour's reactions is a case in point. Also, there often are debates on whether foreign capital has been beneficial or detrimental.

On the criterion of openness and intra-regional trade, EC comes out much better. For example, it is reckoned that the EC countries have an openness ratio that is very similar to that of both Japan and the US. Moreover, the degree of intra-regional trade if reckoned to be higher in Europe than it is in Norther America or in the Asia and Pacific region. Evidence in Table 1 reinforces this observation. From the table it is seen that EC trades disproportionately with itself, and that intra-EC trade has risen much faster than its external trade.

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Table 1: Ratio Share of Trade to Partner's share of World Output

					1975				1989			
Trader	With											
	USA	Canada	Other Americas	Japan	Develo-ping Asia	EC	USA	Canada	Other Americas	Japan	Developing Asia	EC
United States	-	6.42	2.68	0.60	1.56	0.51	-	6.06	2.38	0.87	2.34	0.61
Canada	2.31	-	0.90	0.37	0.58	0.36	2.63	-	0.66	0.47	0.97	0.39
Other Americas	1.19	0.74	2.81	0.55	0.23	0.72	1.13	0.63	3.16	0.31	0.57	0.67
Japan	0.65	1.17	1.12	-	4/70	0.26	0.95	1.15	0.75	-	4.33	0.53
Developing Asia	0.71	0.65	0.19	1.53	3/68	0.56	0.73	0.62	0.43	1.26	4.83	0.54
European Community	0.18	0.37	0.46	0.09	0.44	1.25	0.22	0.33	0.42	0.17	0.63	1.75

Source: Lawrence H. Summers (1991) "Regionalism and the World Trading System in Policy Implication of Trade and Currency Zones, The Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, p.298.

Table 2: Distribution of Gross Domestic Product in the EC (Percent)

	Agriculture			Industry			Manufacturing			Services		
	1965	1986	1989	1965	1986	1989	1965	1986	1989	1965	1986	1989
France	8	4	3	39	34	29	28	-	21	.53	63	67
Germany	4	2	2	53	40	37	40	32	32	43	58	62
Italy	11	5	4	41	39	34	23	22	22	48	56	63
United Kingdom	3	2	2	46	43	37	34	26	20	51	55	62
Belgium	5	2	2	41	33	31	31	23	22	53	64	67
Denmark	8	6	4	36	28	29	16	18	18	49	66	67
Greece	24	17	16	26	29	29	16	18	18	49	54	55
Netherlands	-	4	4	-	34	37	-	18	20	-	62	65
Portugal	-	10	9	-	40	37	-	-	-	--	51	54
Spain	15	6	5	36	37	9	25	27	18	49	56	86
Ireland	-	14	11	-	45	10	-	-	3	-	41	79
Luxembourg	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: World Development Report (World Bank, Washington Dc) 1988 and 1991.

Evidence in table 2 similarly suggests that for most part EC countries do have a well diversified structure of production, with relatively low reliance on agriculture (with the exceptions of Greece, Ireland and Portugal), and with manufacturing accounting for between 19 and 40 percent of total production. This suggests, therefore, that the EC satisfies another criterion of optimum currency area, namely that the more diversified an economy's production structure the less likely it is that a demand or supply shock to an industry will lead to an economy-wide disruption, and to that extent it is worthwhile abandoning use of nominal exchange rate as a policy instrument.

Also, from table 2 the inference could be drawn that demand shocks hitting EC countries would be symmetric in nature. In that case there is less need for differential policy responses which would have required independent monetary and exchange rate policies. It is relevant to note that although the EC countries differ in their exposure to oil price fluctuations, unlike the experience in 1973/674 and 1978/80, the latest oil price shock has not resulted in exchange rate pressure within the EMS.

Table 3 present evidence from which inferences could be drawn about the degree of similarity of inflation rates and degree of policy integration criterion. It is observed from the table that there has been a general convergence of attitude to inflation. Firstly, in the 1970s whereas six of the twelve countries had double digit inflation rates, in the 1980s the figure was three. Also, recorded inflation rates were similar among the countries in the 1980s than in the 1970s. Secondly, if it could be inferred that similarity of inflation rates reflects similarity of attitudes towards inflation-unemployment trade-off, it could be argued that it also reelects policy integration, as policies would be designed and implemented to achieve similar results. And as has been argued in earlier, similarity in policy attitudes would lead to greater convergence of economic performance. While there is no unique level of convergence that is necessary for a currency union to be viable, a greater convergence surely facilitates operations of the union.

Lastly, on the wage-price flexibility criterion, it has been noted that "empirical work suggests that wage behaviour in Europe is closer to the real wage-rigidity pole." To that extent the EC also satisfies the criterion of optimum currency areas.

From the foregoing discussion, the EC could be regarded as having satisfied five of the six criteria reviewed. Satisfying one or two of the criteria, as was argued earlier, would only have been a necessary condition for forming a currency union. However, satisfying five such criteria makes it more convincing that economic analysis justifies the EC being regarded as an optimum currency area. It should be mentioned nonetheless that whether or not it becomes so in reality depends to a large extent on political factors.

Table 3: Consumer Price Inflation Rates Among EC countries (Percent)

	1971 - 80	**1981 - 90**
Germany	5.1	2.6
France	9.7	6.7
Italy	13.9	10.1
United Kingdom	13.8	6.3
Belgium	7.4	4.7
Denmark	9.9	6.3
Greece	14.5	18.9
Ireland	13.8	8.3
Luxembourg	6.7	4.5
Netherlands	7.3	2.5
Portugal	18.3	17.7
Spain	15.1	9.7

Source: J. Fenkel & M. Goldstein (1991) "Macroeconomic Policy Implications of Trade and Currency Zones", p.167.

3.6 Monetary Integration in ECOWAS

In the light of our review of the theory of optimum currency areas and the evidence on the EC at forming EMU, it is of interest to examine the feasability of monetary integration in ECOWAS.

Like in the case of the EC, the factor mobility criterion is difficult to satisfy in ECOWAS. First, most of these countries produce similar products, mainly agricultural products. Because of this, they tend to experience shifts in demand simultaneously, such that one country may not readily attempt to correct its payments disequilibrium by encouraging factor mobility into its economy. Second, capital shortage problem has contributed to controls on capital outflows. As this problem still remains, uninhibited capital outflow is unlikely. Third, political instability has tended to hinder capital inflow. Again, this is likely to remain for some time. Fourth, the diverse cultures and languages in the sub-region are natural barriers to labour mobility. And fifth, the scale of unemployment in most of the countries would make them reluctant to open their borders to labour inflow.

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The Protocol on Free Movement of Persons, which states rights of ECOWAS citizens to enter, reside and establish business in any ECOWAS country, came into effect in June 1980 after being rectified by 8 of the 16 members (7 being the required minimum), but became operative from 1981. However, at its eleventh Ordinary session in June 1988, The Authority observed with concern the rampant cases of unnecessary harassment and other inconveniences encountered by citizens travelling within the sub-region. This is perhaps the clearest testimony to the limited relevance of the factor mobility criterion to ECOWAS at the present time.

One of the main features of ECOWAS, like most developing economies, is that they rely heavily on exportation of a few primary commodities. Also, their exports are usually a very small proportion of national output, except for oil exporting countries. On the other hand, their imports are chiefly intermediate and final manufactured products, which many hardly product significantly. Furthermore, intra-community trade is limited. As table 4 shows, half of ECOWAS trade is with the EC, while intra-ECOWAS trade was less than 7 percent in the period 1978 - 87. Similarly, intra-ECOWAS exports was estimated to be 4.9 percent for the CEAO. So, although most of these countries

are open economies, in the sense that they depend substantially on foreign trade, they do not qûite satisfy the McKinnon criterion of openness. And as already mention and as the experience of the EC shows, for the criterion to be useful in justifying optimum currency area in ECOWAS, there has first to be an increase in the level of intra-ECOWAS trade.

Table 4: Percentage Distribution of ECOWAS Trade with Partners

	EC	USA	JAPAN	ASIA	AFRICA	ECOWAS	OTHERS
1978	53.2	19.0	5.2	9.6	4.4	3.4	5.2
1979	47.6	22.9	4.0	7.9	4.1	3.1	10.4
1980	49.0	19.2	3.9	7.9	5.0	3.8	11.2
1981	45.7	18.4	6.2	12.3	5.3	4.0	8.1
1982	50.8	17.1	5.2	10.3	6.6	4.9	5.1
1983	45.0	13.5	4.0	9.2	8.0	5.9	14.4
1984	56.2	10.7	2.7	6.6	8.5	6.5	8.8
1985	53.4	12.5	2.4	5.5	7.8	6.2	12.2
1986	49.1	14.2	2.3	6.8	9.1	4.7	13.8
1987	4.5	0.1	0.5	1.2	1.3	3.7	

Source: Calculated From Foreign Treade Statistics for Africa, C Series Summary Tables (United Nations Economic Commission for Africa (Addis Ababa) 1988 and 1990)

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Table 5: Distribution of Gross Domestic Product, ECOWAS (Percent)

	Agriculture			Industry			Manufacturing			Services		
	1965	1983	1989	1965	1983	1989	1965	1983	1989	1965	1983	1989
Benin	53	40	46	9	14	12	-	-	5	38	47	42
Burkina Faso	52	41	35	15	19	26	11	-	15	32	40	39
Cape Verde	-	-	-	-	-	-	-	-	-	-	-	-
Cote d'Ivoire	36	27	46	17	24	24	10	13	17	47	50	30
Gambia	-	-	-	-	-	-	-	-	-	-	-	-
Ghana	41	53	49	19	7	17	10	4	10	41	40	34
Guinea	-	38	30	-	23	33	-	2	3	-	39	38
Guinea Bissau	-	-	-	-	-	-	-	-	-	-	-	-
Liberia	27	36	-	40	26	-	3	7	-	34	38	-
Mali	49	46	50	13	11	12	5	-	6	38	43	38
Mauritania	32	34	37	36	21	24	4	-	-	32	45	38
Niger	63	33	36	9	31	13	2	-	8	28	37	51
Nigeria	53	26	31	19	34	44	7	5	10	29	40	25
Senegal	25	21	22	18	26	11	-	17	20	56	54	47
Sierra Leone	34	32	46	28	20	31	6	5	6	38	48	42
Togo	45	22	33	27	28	23	10	6	8	34	50	44

Source: *World* Development Report (World Bank, Washington DC) 1988) 1988 and 1991.

Evidence in Table 5 suggests that most of ECOWAS economies do not have well diversified production structure. There is relatively high dependence on agriculture, accounting for between 30 and 50 percent of total output while manufacturing accounts for less than 10 percent in most. This suggests, therefore, that the sub-region does not satisfy the criterion which requires that the structure of production should be well diversified.

Also from table 5 it could be inferred that demand shocks hitting the sub-region would tend to be asymmetric, given the structure of their production. Specifically, although the countries all export mainly agricultural commodities, they do not all export the same commodities. Some export mainly cocoa, some coffee, some groundnuts, some palm produce, and some rubber. World market demand and prices for these commodities do not often move in the same direction simultaneously. It therefore means that there would be some country-specificity in demand shocks in the sub-region, and there would therefore tend to be the need for independent policy response, unlike in the case of the EC.

On the criterion of similarity of inflation rates and policy integration, evidence in table 6 sheds some light on ECOWAS situation. There does not appear to be similarity in attitude towards inflation. Inflation does not appear to be similarity in attitude between countries in the period covered, although generally lower among the Francophone countries. In fact, the francophone countries are members of the West African Monetary Union (WAMU), comprising the seven ex-French colonies in the sub-region. WAMU operates a common currency (the CFA Franc), pegged to the French franc at an exchange rate of CFA 50F equal 1FF. Other studies have similarly found that inflation rates have been generally lower in WAMU than in the rest of sub-Sahara Africa. Indeed WAMU has been described as a successful attempt at monetary integration in Africa, Bhatia (1985). However, based n results from a simple model comparing the relative performance by CFA and non-CFA countries in inflation and GDP growth, Devarajan and Rodrik (1991) concluded that "fixed exchange rates have been, on the whole, a bad bargain for the CFA member countries. For most of the CFA members, the inflation benefits do not appear to have been large enough to offset the costs on the output side... these counties would have been better off having the flexibility to adjust to external shocks."

At any rate, the important point from the standpoint of this study is that there is not yet similarity in inflation rates in the sub-region as a whole. The most there is of such similarity is among seven of the sixteen members.

With regards to money supply and domestic credit, chosen here as policy variables, the picture is similar to that of the inflation rate. Among non-francophone countries the magnitude of changes varied substantially for example, between 30 and 72 percent in Ghana, 20 and 50 percent in Nigeria, 28 percent in Sierra Leone, and 4 and 27 percent in Liberia. However, among the francophone countries the magnitude is more comparable and much lower.

Table 6: Consumer price Inflation Money Supply and Domestic Credit Rates in Selected ECOWAS Member States

	Nigeria			Ghana			Gambia			Togo			Burkina Faso		
	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC
1980	20.0	50.1	23.4	50.1	30.1	28.1	6.7	6.1	22.9	12.4	5.1	11.9	12.2	19.9	3.7
1981	0.0	5.6	47.3	116.5	54.5	63.2	6.1	25.6	23.1	19.7	44.5	10.5	7.6	17.2	14.4
1982	33.0	3.1	36.0	22.3	19.0	21.6	10.8	13.3	23.2	11.1	12.6	4.8	12.0	11.3	13.4
1983	24.8	12.3	28.9	122.9	49.3	72.2	10.6	15.0	26.7	-20.6	-7.8	-6.8	8.4	11.0	-5.8
1984	2.6	8.2	10.3	39.9	60.6	50.2	22.1	-0.7	16.9	-3.6	9.2	-12.6	4.8	11.2	-1.8
1985	-7.9	8.4	4.9	9.3	42.7	59.7	18.3	62.3	26.1	-1.8	-8.8	-5.8	6.5	4.6	6.7
1986	40.5	-4.3	14.1	24.6	44.0	2.0	56.6	2.7	-29.1	4.1	8.5	61.0	-2.6	22.9	1.9
1987	5.4	17.7	10.4	39.8	52.6	72.4	23.5	18.3	-46.7	0.1	1.5	-2.3	-3.0	6.7	-8.3
1988	31.8	43.9	26.1	31.3	45.0	-4.8	11.7	7.9	17.5	-0.2	-29.3	7.2	4.4	10.6	7.0
1989	17.4	19.8	7.5	25.2	52.7	24.3	8.3	21.9	-10.5	0.8	-1.9	-24.7	-0.5	4.4	29.2
	Cote d'Ivoice			Senegal			Benina			Mali			Mauritania		
	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC	CPI	M^S	DC
1980	14.7	11.3	23.2	8.0	13.8	17.2	NA	34.7	48.9	NA	4.8	5.2	10.7	11.8	13.6
1981	8.8	5.9	23.1	5.9	18.3	25.7	NA	33.1	-2.0	NA	1.3	8.0	19.1	35.1	17.1
1982	7.4	-0..9	6.8	17.1	15.8	19.6	NA	38.1	68.9	NA	15.9	14.8	12.6	123.4	19.7

1983	5.9	6.4	19.5	11.7	0.1	8.2	NA	-1.6	14.4	NA	19.2	12.9	1.0	-52.9	10.4
1984	4.3	17.4	0.5	11.7	1.3	2.7	NA	9.1	-1.0	NA	31.9	-15.9	7.1	18.5	8.8
1985	1.8	7.9	-2.3	11.5	1.0	8.4	NA	-2.7	15.2	NA	6.3	13.6	13.5	27.1	2.5
1986	7.3	2.6	4.3	6.2	17.3	0.9	NA	-9.4	-30.0	NA	3.3	8.6	7.8	-6.6	5.9
1987	0.4	-5.9	1.5	-4.1	-5.5	0.6	NA	-21.7	0.3	NA	-7.0	-5.8	7.8	17.5	10.3
1988	7.1	-3.4	5.8	1.9	0.2	7.0	NA	16.4	6.1	NA	4.7	-21.3	1.3	6.7	5.9
1989	0.7	-11.6	-7.4	0.5	7.4	7.7	NA	17.3	-39..4	NA	-3.5	0.2	13.0	5.6	28.8
	Liberia			**Sierra Leone**			**Benina**			**Mali**			**Mauritania**		
	CPI	**M^S**	**DC**	**CPI**	**M^S**	**DC**	**CPI**	**M^S**	**DC**	**CPI**	**M^S**	**DC**	**CPI**	**M^S**	**DC**
1980	14.7	-9.5	2.9	11.1	19.6	30.7									
1981	7.6	-24.1	13.3	23.3	-0.4	32.4									
1982	6.0	26.7	22.0	31.1	66.7	32.9									
1983	2.8	17.3	14.7	69.7	41.8	21.9									
1984	1.2	22.5	3.9	66.5	35.4	27.5									
1985	-1.0	27.1	15.0	76.7	85.2	49.2									
1986	4.0	30.3	8.3	80.9	105.8	69.2									
1987	5.0	18.8	15.9	178.7	56.0	50.4									
1988	9.7	7.4	24.7	34.3	60.5	54.1									
1989	NA	20.3	-1.2	60.8	87.1	59.4									

NA - Not Available

Source: Calculated From International Financial Statistics (IMF, Washington DC) July 1990 & September, 1991.

3.8 Conclusions

The theory of optimum currency areas provides useful basis for assessing the feasibility of a monetary union and single common background of the theory, one notices that it is actually possible for some or most of the criteria proposed by the theory to be met. The apparent progress made at forming the EMU could be attributed to these conditions being prevalent among the countries.

The apparent progress notwithstanding, the experience of the EC highlights how difficult it is for even twelve countries to agree on and meet all the conditions and dates for monetary union, despite their economic, political and socio-cultural similarity.

Another important lesson from the EC is that what is fundamental to a monetary union is the political will to integrate. Reactions to the Maastricht Treaty in some member countries is the economic criteria may be met, without sufficient political will, monetary integration may be difficult.

Examining the ECOWAS situation, one notices that the necessary conditions prescribed by the theory of optimum currency areas are largely still absent. Also, it is difficult to argue that there is yet sufficient political will to fully integrate among member countries. This is reflected int eh fact that almost every year at its annual summit since 1980. The authority has noted with concern the non-commitant attitudes of members to the terms of the Treaty or the agreed and signed protocols.

Another important lesson form the EC experiment is that the problem of selecting a single common currency for a monetary union is not an easy one. The EC started with the ECU. Even though members all recognise that a single currency is not only meant to replace national currencies and thereby reduce transactions costs, this has not made the choice of such a common currency any easier. There is a particularly important lesson here for ECOWAS. Assuming that, like the ECU, a currency unit can be created, how does it evolve into a single currency to replace national currencies, considering that the national currencies themselves are currently fixed in relation to tother international intervention currencies such as the dollar and pound sterling, and the French franc. Some have suggested the adoption of the WAMU model. But which

non-member developed country would accept, and be accepted by all to have its currency used for this purpose? Even then a price has to be paid. In the case of WAMU, France dictates the terms of the relationship. It is easier for a small group of seven countries to accept such terms especially against the background of their historical links, than for sixteen to find a common ground, again, given the differences in historical background. It may, therefore, not be easy to replicate WAMU's arrangement on a sub-regional scale.

In sum, therefore, there appears to be a lot still to be done for ECOWAS to satisfy even one of the criteria of an optimum currency area. However ECOWAS have set out some convergence criteria necessary for monetary integration thus: exchange rates should be less than or equal to 10%, inflation rate should be on a phased-out performance less or equal to 5% and Budget deficit, minus grants of a nation of GDP should be less than 4%.

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CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

This chapter is divided into three section: population and sample, research instrument and the methods used in testing the hypothesis:

4.2 Population and Sample

The Central Banks of the sub-region were used as the population and sample base, of which questionnaires were administered. From the answers we were able to assess the status of implementation of short, medium and long term measures by the banks in achieving convergency.

The monetary structure in west Africa is to date based on historical colonial linkage. The French speaking West Africa comprising eight countries: (Benin, Burkina-Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo). These countries are members of West African Monetary Union (WAMU) and a common currency "Franc de la Communaute Fraanciere de I'Afruique" (CFA Franc), and also have one Central bank "BCEAO) as such we take them as one sample. The rest of the member countries are: Cape

Varde, Gambia, Ghana, Guinea, Liberia, Mauritania, Nigeria and Sierra Leone operates their individual Central Banks..

Staff of these banks were also used for the follow up question and their personal opinion and the same thing we did to the relevant members of state of the ECOWAS.

We use various central banks for our sample because these apex banks are where monetary policies are articulated and implemented. We obviously could not use merchant banks or commercial banks because they don't have relevant data that we require for the purpose of this study.

In the Anglophone countries we interviewed some of the governors of the apex banks, but the concentration of the interview is more in the research section of the banks and members of the international economic relation section.

In conducting the research we did purposive sampling that is purposely targeted people because they are very critical and have inside knowledge of the

information and they have authority and control over that information. These people who for many years have been the resource people preparing policy memos of their respective countries for ECOWAS Summits.

4.3 Research Instrument

A framework for assessing the status of implementation of the monetary cooperation programme and the harmonization of Macro Economic Policies in ECOWAS member states was constructed. It consisted four broad Areas (1) Trade policy (2) Exchange Policy (3) Fiscal policy (4) Monetary Policy. There was a battery of checklist question which helped ascertain the presence or otherwise of the items in the framework.

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4.4 Methods of Data Collection

I. Primary Data

This data is generated from the questionnaire designed and administered to various relevant people. Interviews were also conducted on trade policy, macro-economic and monetary policies. We did some observation.

II. Secondary Sources

In the course of the study we have consulted various publications, particularly various central banks publications of member states, such as Central Bank Bulletin, Statistical Bulletin and ECOWAS Publications.

In these publication we look at economic trends in member countries, such as inflation, foreign exchange, interest rates and trade within the subregion and trade outside the region.

4.5 Methods of Data Analysis

In testing the hypothesis of convergence, three statistical methods might be appropriate; Regression analysis, analysis of variance and chi-square test. Below we give the synopsis of all the three and give the justification of why we choose chi-square test as opposed to the rest.

Regression analysis - are used for estimating the values of one variable from known or assumed values of one or more other variables and for measuring the strength of the relationships among the variables.

We did not use this method because it requires large number of observation (n > 20) while the number of countries in ECOWAS is less than 20 and the number of years set for the process has not lasted up to 20 years.

Analysis of Variance - a test of whether the C samples can be considered as having been drawn from the same population, or more precisely, from populations having the same means.

Analysis of variance is a technique that analyzes or tests variances, by doing so, it provides us with a test for the significance of the difference among means.

We felt this is not proper as we are interested in the relationship between the observed and expected action that will lead to monetary union and not the reasons for the variability.

Chi-square test - *provide the basis for testing whether more than two* population proportions may be considered equal.

Chi-square tests furnish conclusion on whether a set of observed frequencies differs so greatly from a set of theoretical frequencies that the

hypothesis under which the theoretical frequencies were derived should be rejected.

We adopted this approach because ECOWAS members countries set some benchmarks to be achieved if they are to achieve monetary union (theoretical frequencies) against what was achieved in the individual countries (observed frequencies).

CHAPTER FIVE

DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data generated from the study. The chapter is divided into three sections in line with the convergence criteria.

[1]* The Trend in the Nominal Exchange Rate Variability Over the Observed Three Years is Given in the following table

Table 5.1: Variablitiy in % of Nominal Exchange Rates Vis-a-Vis US $ 1994 to 1996

Country	**1994**	**1995**	**1996**
UEMOA Group	93	8.7	2.5
Cape Verde	4.9	3.8	8.4
The Gambia	1.1	0.9	3.1
Ghana	47.4	25.4	42.5
Guinea	1	0.9	2.6
Mauritania	0.7	7.9	4.3
Nigeria	1.9	248.6	6.3
Sierra Leone	4.2	54.5	1.1

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[1]* West African Monetary Agency Report AMAO/PCM/97/2 p.5

The convergence criteria as set out by the ECOWAS is less than or equal to 10%. Therefore in looking at the convergence criterion on exchange rates variability which is less than or equal to 10% one can see that:

a) In 1994 six countries met the criterion i.e. Cape Verde, The Gambia, Guinea, Mauritania, Nigeria and Sierra Leone. When subjected to chi-square test one can see clearly that the hypothesis of convergence is rejected, mainly as a result of high variability in the two non-compliance countries/group (i.e. Ghana UEMOA).

b) In 1995 all the countries converged except three i.e. Ghana, Nigeria and Sierra Leone. When subjected to chi-square test the hypothesis of convergence is rejected mainly because of the high variability in exchange rates in Nigeria, Sierra Leone and Ghana.

c) In 1996 all the countries converged except Ghana (table 1a). There appears to be a near convergence in exchange rate variability, but for Ghana which recorded a very high variability in exchange rate movement. Thus the hypothesis of convergence could not be accepted.

Table 5.1 below shows the indicator variables where it shows discrimination between country that converge and the one that does not. 'O' shows no convergence while '1' shows convergence

Table 5.1(a) Convergence Criteria on Exchange Rates Variability: {< = 10%}

Country	**1994**	**1995**	**1996**
UEMOA Group	0	1	1
Cape Verde	1	1	1
The Gambia	1	1	1
Ghana	0	0	0
Guinea	1	1	1
Mauritania	1	1	1
Nigeria	1	0	1
Sierra Leone	1	0	1
Total Number that Complied	**6**	**5**	**7**

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Table 5.1(b) Chi-Square Test for Uniformity of Convergence of the Various Countries

Test: Ho: p <= 0.1 vs H1: p > 0.1

Country	**1994**	**1995**	**1996**
UEMOA Group	390.3	19.8	3.0
Cape Verde	7.2	27.9	0.2
The Gambia	13.3	33.3	2.2
Ghana	66.3	2.7	177.2
Guinea	13.5	33.3	2.8
Mauritania	14.1	21.0	1.1
Nigeria	11.9	1,300.1	0.1
Sierra Leone	8.2	10.8	5.1
Computed value of Test Statistic	**524.8**	**1,448.9**	**191.7**

Chi(7, .01) = 18.5

Our critical Chi is (7, .01) = 18.5, therefore, by looking at the computed value of test statistic of 1994 (524.7), 1995 (1,448.9), 1996 (191.7) one can say there is no convergence, hence it is not likely that ECOWAS can achieve monetary integration in the short or medium term based on the convergence criteria on exchange rate variability.

5.2 Table 5.2 data below represent the inflation rates in ECOWAS member states: 1994 - 1996*[2]

Table 5.2: Inflation Rates In ECOWAS Member States: 1994-1996

Country	**1994**	**1995**	**1996**
Benin	37.4	3.1	1.9
Burkina Faso	34.7	7.8	6.1
Cape Verde	3.4	8.4	6.0
Cote d'Ivoire	32.5	7.1	3.4
The Gambia	1.2	5.2	0.2
Ghana	34.4	70.8	32.7
Guinea	4.1	4.0	3.0
Guinea Bissau	15.2	45.4	65.6
Mali	23.5	8.7	2.3
Mauritania	4.1	6.5	4.3
Niger	35.3	5.5	3.6
Nigeria	57.0	72.8	29.0
Senegal	32.1	6.1	2.9
Sierra Leone	17.7	34.5	8.8
Togo	39.1	6.4	4.9

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[2]* West African Monetary Agency Report AMAO/PCM/97/2 p.7

The convergence criteria as set out by ECOWAS is less than or equal to 5% therefore in looking at the table one could infer as follows:

a) In 1994 only four countries converge i.e. Cape Verde, Guinea, Gambia and Mauritania. This means only four countries out of the fifteen complied with the set criterion. And when the same data are subjected to a further statistical test (table 2a) and using chi-square test for uniformity of convergence of the various countries (table 2b) one could infer that the data do not suggest the acceptance of the hypothesis of convergence. The test also suggests that the countries do not seem to have comparable inflation rates of similar magnitude.

b) In 1995 only two countries converge, they are Benin and Guinea (table 2a) and when subjected to chi-square test (table 2b) one could clearly reject the hypothesis of convergence.

c) In 1996 (table 2a) nine countries converged i.e. Benin, Cote d'Ivoire, The Gambia, Guinea, Mali, Mauritania, Niger, Senegal and Togo. And when subjected to the chi-square test one can safely see the high variability of

inflation rates in Guinea Bissau, Ghana and Nigeria which resulted in the high significant value of the statistic, leading to a rejection of the convergence hypothesis.

Table 2(a) Convergence Criteria on Inflation Rates: {< 5%}

Country	**1994**	**1995**	**1996**
Benin	0	1.0	1.0
Burkina Faso	0	0.0	0.0
Cape Verde	1	0.0	0.0
Cote d'Ivoire	0	0.0	1.0
The Gambia	1	0.0	1.0
Ghana	0	0.0	0.0
Guinea	1	1.0	1.0
Guinea Bissau	0	0.0	0.0
Mali	0	0.0	1.0
Mauritania	1	0.0	1.0
Niger	0	0.0	1.0
Nigeria	0	0.0	0.0
Senegal	0	0.0	1.0
Sierra Leone	0	0.0	0.0
Togo	0	0.0	1.0
Total Number that	4	2.0	9.0

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Table 2(b) Chi-Square Test for Uniformity of Convergence of the

Various Countries

Test: Ho: p = 0.049999 vs H1: p > 0.049999

Country	**1994**	**1995**	**1996**
Benin	21.03	9.1	5.3
Burkina Faso	2.53	3.2	0.8
Cape Verde	11.81	2.6	0.9
Cote d'Ivoire	11.76	3.9	3.3
The Gambia	20.44	6.1	8.3
Ghana	15.04	216.0	65.8
Guinea	10.70	7.7	3.8
Guinea Bissau	0.43	64.8	370.2
Mali	1.71	2.4	4.7
Mauritania	10.70	4.5	2.3
Niger	16.73	5.7	3.0
Nigeria	84.82	231.7	47.0
Senegal	11.12	5.0	3.9
Sierra Loene	0.00	27.1	0.0
Togo	24.87	4.6	1.7
Computed value of Test Statistic	**243.67**	**594.3**	**520.9**

Chi(14, .01) = 29.141

5.3 Table 5.3*[3]data below represent the Budget deficit/GDP Ration 4%: 1994 - 1996

Table 5.3: Budget deficit/GDP Ratio in % :

1994-1996

The convergence criteria as set out by the ECOWAS is less than or equal 4%, therefore in looking at the convergence criterion on deficit to GDP Ratio of less than or equal to 4% one could infer as follows:

a) In 19994 (table 3a) five countries met the convergence criterion i.e. Benin, The Gambia, Ghana, Mauritian and Senegal. When subjected to the chi-square test the data suggests a wider divergence of this ratio in the 15 countries, especially in Cape Verde, Guinea Bissau and Togo.

b) In 1995 six countries did not converge i.e. Cape Verde, The Gambia, Guinea, Guinea Bissau, Sierra Leone and Togo. When subjected to the chi-square test for the uniformity of convergence, the data do not suggest the acceptance of the convergence hypothesis.

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[3]* West African Monetary Agency Report AMAO/PCM/97/2 p.8

Table 3 data below represent the Budget deficit/GDP Ration 5%: 1994 - 1996

Table 3: Budget deficit/GDP Ratio in % : 1994-1996

Country	1994	1995	1996
Benin	0.7	3.2	0.4
Burkina Faso	5	1.1	0.5
Cape Verde	16.3	10.2	8.2
Cote d'Ivoire	6.9	3.7	2.2
The Gambia	1	4.6	6.1
Ghana	2.3	0.9	0.0
Guinea	7.2	6.7	5.8
Guinea Bissau	23.1	11.7	10.9
Mali	4.5	3.2	0.9
Mauritania	2.5	(1.0)	2.7
Niger	6.7	3.5	(0.3)
Nigeria	7.7	(0.1)	(1.6)
Senegal	1.8	0.2	0.3
Sierra Loene	6.7	7.0	7.0
Togo	11.4	5.8	4.9
Total	103.8	60.7	48.0

The convergence criteria as set out by the ECOWAS is less than or equal 4%, therefore in looking at the convergence criterion on deficit to GDP Ratio of less than or equal to 4% one could infer as follows:

a) In 19994 (table 3a) five countries met the convergence criterion i.e. Benin, The Gambia, Ghana, Mauritian and Senegal. When subjected to the chi-square test the data suggests a wider divergence of this ratio in the 15 countries, especially in Cape Verde, Guinea Bissau and Togo.

b) In 1995 six countries did not converge i.e. Cape Verde, The Gambia, Guinea, Guinea Bissau, Sierra Leone and Togo. When subjected to the chi-square test for the uniformity of convergence, the data do not suggest the acceptance of the convergence hypothesis.

c) In 1996 six countries did not converge: Cape Verde, The Gambia, Guinea, Guinea Bissau, Sierra Leone and Togo and when subjected to chi-square test, the hypothesis of uniformity of convergence was rejected at the 1 per cent significant level.

Table 3(a) Convergence Criteria on deficit-to-GDP Ratio: {< 4%}

Country	1994	1995	1996
Benin	1	1.0	1.0
Burkina Faso	0	1.0	1.0
Cape Verde	0	0.0	0.0
Cote d'Ivoire	0	1.0	1.0
The Gambia	1	0.0	0.0
Ghana	1	1.0	1.0
Guinea	0	0.0	0.0
Guinea Bissau	0	0.0	0.0
Mali	0	1.0	1.0
Mauritania	1	1.0	1.0
Niger	0	1.0	1.0
Nigeria	0	1.0	1.0
Senegal	1	1.0	1.0
Sierra Loene	0	0.0	0.0
Togo	0	0.0	0.0
Total Number that Complied	5	9.0	9.0

Table 3(b) Chi-Square Test for Uniformity of Convergence of the Various Countries
Test: Ho: p = 0.039999 vs H1: p > 0.039999

Country	**1994**	**1995**	**1996**
Benin	2.87	0.2	1.2
Burkina Faso	0.17	0.7	1.1
Cape Verde	35.54	24.9	20.5
Cote d'Ivoire	1.82	0.7	0.0
The Gambia	2.39	1.9	9.1
Ghana	0.83	1.0	1.9
Guinea	2.24	7.5	7.8
Guinea Bissau	86.47	35.4	42.0
Mali	0.03	0.2	0.5
Mauritania	0.66	4.8	0.3
Niger	1.56	0.5	2.6
Nigeria	3.03	2.6	6.5
Senegal	1.33	2.0	1.4
Sierra Loene	1.56	8.6	13.4
Togo	12.65	4.7	4.6
Computed value of Test	**153.17**	**95.9**	**113.0**

Statistic

Chi(14, .01) = 29.141

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Conclusion

Following the failure of most countries to meet the covergence criteria, it is not likely that ECOWAS can achieve monetary integration in the short or medium term. However, with concerted efforts by members countries and the necessary political will, integration can be achieved in the long run.

Table 3(b) Chi-Square Test for Uniformity of Convergence of the Various Countries

Test: Ho: p = 0.039999 vs H1: p > 0.039999

Country	**1994**	**1995**	**1996**
Benin	2.86991456472	0.2	1.2
Burkina Faso	0.173241338638	0.7	1.1
Cape Verde	35.5443437954	24.9	20.5
Cote d'Ivoire	1.81894588202	0.7	0.0
The Gambia	2.39275000555	1.9	9.1
Ghana	0.826012831336	1.0	1.9
Guinea	2.23775747948	7.5	7.8
Guinea Bissau	86.4738953771	35.4	42.0
Mali	0.0291857622969	0.2	0.5
Mauritania	0.65723248466	4.8	0.3
Niger	1.56382353094	0.5	2.6
Nigeria	3.03211833079	2.6	6.5
Senegal	1.33226252997	2.0	1.4
Sierra Loene	1.56382353094	8.6	13.4
Togo	12.6532567687	4.7	4.6
Computed value of Test Statistic	**153.168564213**	**95.9**	**113.0**

Chi(14, .01) = 29.141

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Summary

The Authority of Heads of State and Government at its 10th session held in Abuja, July 1987, adopted the ECOWAS monetary cooperation programme which envisaged the establishment of a single monetary zone by the year 2000. In effect the 16 member states should enjoy a common currency in the new millennium.

In the study we appraise the policies with the reference to convergence indicators as stipulated by the ECOWAS. In doing that we use the indicator approach and the Chi-squared statistics to test the criteria of convergence to ascertain whether in the very short run the member states could achieve monetary integration. And our study concluded that following the failure of most countries to meet the convergence criteria, it is not likely that the ECOWAS can achieve monetary integration in the short run.

member countries and the necessary political will, integration can be achieved in the long run.

In our opinion, convergence criteria as stipulated by the ECOWAS in itself alone, may not address the movement towards a common currency in the sub-region, we therefore must address the issue of underdevelopment within the area as monetary integration is not static nor imaginary, it evolves as the stage of development of a society evolves.

From our observation, ECOWAS must go beyond rhetoric and understand the requirement for an international currency which essentially require three conditions for it to emerge, among which a highly stable value, high confidence of the currency and institutional support of a sound, strong and open economy.

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From our study one can safely conclude that one of the major obstacles towards realization of a common currency in the sub-region, is the over assumption of member states governments that accepted common currency evolves as a result of mere government pronouncements forgetting that international and national monetary systems have mainly been determined by the private sector rather than

by governments which it entails two explanatory functions. First, studies of economic history support the view that 'a' currency becomes internationally or nationally established only if it is widely utilized by the private sector. Second, the private sector is the source of innovation in monetary instruments, therefore common currency could only be possible when it is acceptable by the private market.

6.2 Recommendation

At the policy level of ECOWAS we find the recommendation of ECOWAS secretariat which recommend as follows:

6.2.1. The convertibility and soundness of a currency depends essentially on four major conditions, viz a liberalized trade and payments regime which guarantees unrestricted international current and capital transactions; an appropriate exchange rate management environment characterized by appropriate institution and policy framework; and a relatively developed and sophisticated financial system to promote the development, and ensure the efficient operation of a foreign exchange market. Within a regional framework, there must

be in addition to the factors mentioned above, an effective system of exchange rate policy coordination in particular, and macro economic policy harmonization in general, within the union territories. In the light of the foregoing, the proposal for ECOWAS currency convertibility must grapple with the problems of policy environment, institutional framework and operational modalities for establishing and sustaining the convertibility of the regional currencies.

6.2.3 All participating or contracting member states should attain a situation of liberalized foreign exchange transactions involving the abolition of exchange control on current and capital international transactions within the community.

6.2.4 Transactions in local (regional currencies) should be liberalized by removing the restrictions on export/import of the currencies. This could be done in stages with liberal limits to be initially imposed, and then finally eliminated totally.

6.2.5 Member Central banks should endeavor to maintain adequate reserves to give among other things credibility agreement.

6.2.6 There should be a regime of trade liberalization that allows importation to be undertaken under a system of open general licence (OGL) and permits invoicing of the tradeable in local/foreign currencies; simplified procedures for export/import transactions etc.

6.2.7 A liberalized foreign exchange market that allows dealings in regional as well as other foreign currencies at market determined floating exchange rates should be adopted by all contracting members of the proposed currency convertibility agreement.

6.2.8 All contracting member countries should accept the commitments by each member central bank to redeem its surplus currency circulating in another member country as a buyer of last resort when required to do so, subject to the requirement that counterfeit notes discovered in such packages are not redeemable.

6.2.9 Restrictions such as tariff and non-tariff barriers on the cross-border flow of goods, services and capital, that do not relate to exchange control should also be phased out as rapidly as possible by member countries.

6.2.10 Obstacles to inward financial flows, especially controls on inward direct investment, equity investment should be eliminated where they still persist as these longer term investments pose less risk to financial stability. Over the longer term, financial outflows should also be liberalized to avoid the region being perceived as "sucking up" investment funds.

6.2.11 Attempt should be made to minimize paper work that will deter foreign investors and traders. This is consistent with the option of obtaining information for balance of payments purposes from authorized dealers of forex and customs and excise agencies.

6.2.12 Still on policy environment, we recommend that regional harmonization of policies should be encouraged in the following areas:

a) exchange rate management;

b) macroeconomic policies such as monetary and fiscal policies;

c) legal banking provisions and

d) central bank prudential and other regulatory guidelines.

6.3 Institutional Framework

The institutional framework for a successful implementation of a regional currency convertibility agreement calls for:

a) A central bank that enjoys autonomy to carry out its professional job.

b) A sound commercial banking system to engage in foreign exchange transactions as authorized dealers in funds transfers.

c) Establishment of bureaux de change institutions appropriately authorized to complement commercial bank forex operations and enhance the development of the foreign exchange market in the regional currencies as well as other currencies of the major trading partners in the rest of the world.

d) The widespread establishment of correspondent banking relationships among the regional central banks as well as the commercial banks and possibly the bureaux de changes.

e) an efficient regional payments system.

6.3.1 Operational Modalities

This section focuses on the operational matters relating to exchange rate alignment, invoicing, role of the institutional players, settlement arrangements and implementation to monitoring of the prospective regional currency convertibility agreement.

6.3.4 Exchange Rates

Exchange rate calculations should be based on the US dollar, this rate must be communicated daily and must be confirmed by tested message; quotation should be two ways, firm for any amount and must hold good until change is notified. The computation and management of exchange rates should be the responsibility of each central bank. Invoicing should be encouraged in the currency of one's choice.

6.3.5 Role of Commercial Banks

The commercial banks as authorized dealers should:

a) buy and sell foreign exchange including regional currencies from and to their customers and for this purpose, post the daily exchange rates;

b) be encouraged to open ;and maintain in their books any regional currency for their own accounts and on behalf of their customers;

c) be encouraged to establish correspondent relationships with banks located in other member countries;

d) obtain documentation required by the monetary authorities before they effect any remittance of foreign exchange;

e) handle the repatriation of surplus local currencies to their respective correspondent banks in the respective countries but where they have no correspondents, the surplus holdings of

national currencies should be repatriated on a collection basis by the relevant central bank for a fee; and

f) report their total foreign exchange position including the regional currencies to their respective central banks.

6.3.6 Role of Foreign Exchange Bureaux

As licenced authorized deals in foreign exchange the bureaux should play the following role to facilitate the convertibility of the regional currencies:

a) buy and sell foreign currencies including all the regional currencies from and to their customers and for this purpose post daily exchange rates;

b) should be encouraged to operate on a regional dimension and;

c) report their total foreign exchange position including the regional currencies to their respective central banks for statistical purposes only.

6.3.7 Role of Central Banks

To implement and sustain regional currency convertibility the member central banks should play the following role:

a) Buyers of last resort of the regional currencies, at the prevailing market rates.

b) Act in concert in support of each others currencies to ensure the smooth function of the foreign exchange market.

c) Promote and facilitate the convertibility of the regional currencies by, among other things, holding discussions with the authorized foreign exchange dealers and setting operational procedures/guidelines to promote the convertibility of the currencies.

d) Undertake to share market intelligence information and provide authorized dealers in forex indicative exchange rates on a daily basis, the calculation on dollar cross rates or on other acceptable currency unit such as the SDR rate.

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e. Ensure the harmonization of code of conducts for foreign exchange dealers in the various member countries.

f. Each central bank- should retain the responsibility for managing its own exchange rate and may on an optional basis, maintain exchange rate band.

g. Undertake monitoring of implementation to ensure compliance with the terms of agreement

6.3.8 Settlement Arrangement

The settlement arrangements to facilitate the operations of the regional currency convertibility should make provisions for:

a. The balances of the correspondent accounts maintained by the contracting central banks for each other should be payable on demand in either the currency of deposit or the equivalent in US dollars or any other currency as may be agreed from time to time.

b. Statements of the correspondent accounts should be submitted monthly and transactions advised whenever they occur.

d. All parties dealing **in** foreign Currency, Including regional Currencies, Should familiarize themselves with the currencies they handle.

e. Items in transit should be the responsibility of the holder.

6.3.9 Other Issues

Investment: Balances held in correspondent accounts may be in treasury bills or any financial instruments in the local money market.

Legal provisions: The legal provisions of the member countries should be revised and appropriately amended to facilitate full convertibility of regional currencies.

The Committee of Governors should appoint a surveillance group or persons selected from member central banks to work in collaboration with WAMA secretariat and the relevant office in ECOWAS secretariat to;

a. monitor the implementation of the convertibility agreement;

b identify operational problems and where necessary, convey meetings of the committee of Governors, and;

c. facilitate the development of the foreign exchange market in the region.

6.3.10 Measures at Community Level

To ensure a level playing ground and uniform development of the regional foreign exchange markets it is necessary to streamline and harmonize the operating guidelines for the foreign exchange authorised dealers comprising the banks and the bureaux de change

To sustain and ensure the smooth functioning of the regional currency convertibility system, the committee of Governors should harmonize the legal and regulating framework for the region's banking system. In this regard, there is need to review the Banking Acts of the member states with a view to formulating common banking laws which should, among others things, accord autonomy to the central banks to strengthen their decision making process especially in the formulation

and implementation of monetary policy and the prudential regulation and supervision of the financial system .

The measures for the regional constitutionalisation of macroeconomic, including exchange rate policies, should be implemented with renewed commitment by monitoring and enforcing compliance through consultations with member countries.

Monitoring of implementation of the convertibility agreement through periodic appraisal and issuing of evaluation reports on the performance, and dealing promptly with any observed operational problems.

The development of a monetary and financial statistical data base for the entire region as well as the development of an information bank on the policies and structures of ECOWAS central banks in order to facilitate exchange and dissemination of information across the region to enhance operational efficiency as well as facilitate the process of monitory compliance.

6.3.11 Measures at the Level of States

To ensure unrestricted movement of products, money and labour within the region, the contracting members shall take the necessary measures to liberalize the trade and payments regimes. This implies the removal of all existing exchange controls on current and capital transactions including restrictions on export/import.

The regulations and supervision of the authorized dealers to comply with the codes of conduct regionally defined and applied by the respective member central banks.

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To maintain a sound financial system through prudential regulations targeted at preserving the solvency of the individual financial institutions and speculative regulations aimed at channeling investment away from perceived high risk projects There is however, the need to co-ordinate policies for regulating the banks with aims of regulating the financial markets to ensure their internal consistency

The member states which find it unpalatable to follow the "big bang" approach could liberalize their capital account controls by adopting a sequential approach of first relaxing controls on current account transactions and longer term foreign direct and portfolio investment inflows, and later remove controls on short term financial flows.

The process of regional Currency convertibility Should be supported by Sound macroeconomic policies, monitoring and regulation to minimize the Vulnerability of the economics to capital reversals.

Renewed commitment to the implementation of the regionally-defined macroeconomic convergence criteria already in place and commitment to the price stability and exchange rate stability with Sound monetary and fiscal policies.

The maintenance of adequate reserve build up to give credibility to the regional currency convertibility.

Amend existing legal banking provisions/prudential another guidelines in line with the regionally harmonized provisions/regulations/guidelines.

Central banks to open and operate correspondent relationships among themselves and encourage the banks to also establish a network of correspondent relationship in the region.

Development of economic infrastructure to ensure improved transportation and telecommunication links and the computerization of the financial sector to modernize its operations and enhance its efficiency.

Develop mechanism for monitoring and managing foreign exchange flows associated with liberalized capital account regime.

Finally it is important to emphasis that no matter what studies and reports are produced on the issue of monetary integration, the critical element that is needed to the this important ECOWAS project

is the political will and commitment to integration by all concerned especially the authority of Heads of State.

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APPENDIX

ECOWAS Monetary Cooperation Programme :

Status of Implementation of Short, Medium and Long Term Measures by Banks to Achieve Convergence See Table

**

	Cleared Areas in WACH	Removed all NTBs	Exchange Rate Adjusted to Equilibriu m Levels	Reduced Gap Bet. Official and market Rates	Achieved Single Digit Inflation Rate	Liberalized current Account	Liberalized Capital Account	Adopted OMO	Deregula ted Interest Rates	Adoption of Calender year	Achieved Real Growth Rate	Adopted 0-10% of Ceiling on Cent. Bank Credit to Govt..	Assess-ment Score
BCEAO													
CAPE VERDE													
THE GAMBIA													
GHANA													
GUINEA													
GUIN. BISSAU													
LIBREIA													
MAURITA NIA													
NIGERIA													
SIERRA LEON													
No. OF BANKS													

KASHIM IBRAHIM LIBRARY

Overall Assessment Score = 68.33%

* Cleared all consolidate areas

* Dual Exchange Rate in Operation since January 1995

*** There exists a very huge difference between market rates and the rates for some official transactions

Check List Questions

The following checklist questions were used to evaluate the measure of convergence. See table ***

QUESTIONNAIRES FOR THE PROGRESS REPORT ON THE IMPLEMENTATION OF THE MONETARY COOPERATION PROGRAMME (MCP) AND THE HARMONIZATION OF MACRO ECONOMIC POLICIES IN ECOWAS MEMBER STATES

1. Name of Country .....
2. Reporting Institution .....
3. What is your Country's Fiscal year?

   Calender Other

TRADE POLICY

4. What is the nature of your country's trade policy?

   Restrictive

   Liberal (Free Market)

   Others, Please specify

5. Are there restrictions on payments for current account transactions?

   Yes No

6. If yes, indicate the policies and measures being applied

   I. Limits on transfers for imports

   ii. Limits on transfers for tourism and business travel

   iii. Limits on other invisible, please specify

7. Has your country assumed the current accounts convertibility obligations under the IMF'S Articles of Agreement (Article VIII)

   Yes No

8. Are there non-tariff barriers to trade in your country?

Yes No

If yes please specify

I. Cumbersome customs/immigration procedures

ii. Numerous check points

iii. Quotas

iv. Imports licensing

v. Export licensing

vi. Advance Deposits

vii. Prohibitions

viii. Others, Please specify

9. Are there non-tariff barriers of a monetary nature?

Yes No

If yes, which of the following, can't foreigners pay for in local currency

Hotel Bills Air Tickets Airport Tax

Port Charges Others, please specify

EXCHANGE POLICY

10. Are West African Travelers required by law to declare and/or surrender foreign exchange to the authorities

Declaration Surrender Limits

11. What exchange Rae Regime is in place?

Fixed Floating

12. If fixed, what currency is it pegged to?

13. If floating, how is the exchange rate determined?

Market Others, Please specify

14. Are there foreign exchange bureaux in operation?

Yes No

15. What regional currencies are quoted by the foreign bureaux?

Please, specify

16. Please provide data on the following:

Exchange Rate LE/US$

	YEAR	ANNUAL AVERAGE	END OF YEAR	PARALLEL RATE PREMIUM
1993	Q1 Q2 Q3 Q4			
1994	Q1 Q2 Q3 Q4			
1995	Q1 Q2 Q3 Q4			
1996	Q1 Q2 Q3 Q4			

KASHIM IBRAHIM LIBRARY

FISCAL POLICY

17. Are you able to meet budgetary revenue targets?

Yes No

18. Are you able to meet budget expenditure target?

Yes No

19. Are there policies in place to improve tax collection?

Yes No

If yes, Please Specify

20. Are policies in place to restrain excessive expenditures?

If yes, Please specify

21. How are fiscal deficits financed?

Foreign borrowing Commercial Banks

Central bank financing Private Sector

Others

22. What is the stipulated repayment period for Central Bank Borrowing?

23. Are there statutory limits on the amount of deficits that can be financed by Central Banks?

Yes No

If yes, Please specify

24. (Le) Million

	1994	1995	1996
Tax Revenue			
Non tax Revenue (Excluding Grants)			
Current Expenditure			
Wages, Salary and Employers contribution			
Subsidies and current transfers			
Capital Expenditure			
Deficit surplus			
Deficit/GDP Ratio (Less Democratization Exp)			

MONETARY POLICY

25. Specify the stance of Monetary Policy during the last 5 years.

Restrictive Expansionary Others

26. Indicate the applicable instruments of Monetary Policy

i. Open Market Operations
ii. Credit ceilings
iii. Reserve requirements
iv. Liquidity Ratios
v. Moral suasion
vi. Other, please specify

27. How are interest rates determined?

Market Administratively Other, Please specify

28. Please complete the following table on interest rates

YEAR	SAVING RATE	LENDING RATE
1993		
1994		
1995		
1996		

29. Please provide the data in the table below: (in million leones)

	1993	1994	1995	1996
Real GDP				
Public Consumption				
Private Consumption				
Investment				
Exports				
Imports				
Inflation (End Period)				
M1				
M2				
Net Foreign Assets				
Net Domestic Assets				