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LESSONS FROM NIGERIA'S RECENT MONETARY AND FISCAL POLICY EXPERIENCE

G. O. Okah¹

Abstract

Unlike the lower animals which are biblically described as being "instinctively wise", humans can and should gain from their own experiences to increase their knowledge of the environment. The same thing applies to nations.

If there is need to look more inwards for the solutions of domestic economic problems, a case is immediately made for increasing our consciousness to draw useful lessons from our national experiences. Policy design, implementation and assessment can benefit from such lessons.

Since fiscal and monetary policy measures occupy an important place in the country's overall economic management effort, an appraisal of our experience in this area will certainly provide useful insight into an understanding of why we are where we are. That appears to be the main focus of this paper.

Recently, the question of whether or not a central bank can effectively control money supply was examined analytically. [See (10)]. A major conclusion from that analysis is that, given the circumstances of underdevelopment, the traditional tools of monetary management are largely irrelevant in less developed countries and that the narrow-based "direct controls" approach accounts for an insignificant proportion of the total factors generating monetary instability. More importantly, from the point of view of the present discussion, fiscal factors were shown to be seriously implicated in the efficacy or otherwise of monetary control measures.

It therefore becomes necessary to examine, together, the impact of monetary and fiscal policy measures with a view to judging the actual results against the stated policy objectives. The purpose of such exercise would be to provide some basis for drawing useful lessons which will serve as a guide for future design of macro-economic management and control strategies that are more relevant to the Nigerian economic environment.

To do this, one needs some form of discussion framework as is done in Part I of this paper. In Part II recent policy objectives and the measures taken to pursue those objectives are summarised. An appraisal of these measures is attempted in Part III, while lessons to be drawn from the results are discussed in Part IV. Part V contains a summary and conclusion.

I DISCUSSION FRAMEWORK

While fiscal and monetary policy measures are not the only ones used in managing the national economy, they certainly are the most important from the points of view of regularity, periodicity and pervasiveness in application. In fact most other policy areas such as industrial policy, agricultural development policy, and incomes policy are directly related to, or extensions of the framework of fiscal and monetary policy measures as enunciated in the annual budgets. It is therefore necessary and sufficient to use the package of monetary and fiscal policy measures as framework for discussing the efficacy or otherwise of general economic management strategies.

Generally, policy formulation and execution recognise that there are goals (or targets) as well as tools (or instruments) of policy. The idea is to manipulate the instruments with a view

to hitting the targets with the desired intensity and timeliness in order to achieve the desired results. This is a very simplified model. In reality, the chain can be very long. In some cases several instruments are aimed at one target. Sometimes, one instrument overshoots the target and another is needed to ameliorate its effect. In yet other instances, a particular target may be, for all practical purposes, unreachable. So target number one may have to be hit first in the hope of eventually influencing target number two. And there are chain reactions, side effects, unintended consequences and sometimes accidental successes. Then there are leads and lags.

The sum total of all this is that it is extremely difficult to separate causes from consequences in the real world and attribute success or failure to any set of policy objectives without the risk of empirical contradiction. And, as if to complicate matters further, econometricians are capable of telling almost any economic story with the desired flavour from a given set of data. If the picture painted so far creates a certain amount of confusion in the mind of the reader, this should be excusable and even expected given the dynamic setting of the real world.

Economic policy practitioners, as different from theoreticians, have discovered that most of the elegant theoretical models often set up under certain "simplifying assumptions" represent a substantial abstraction from the real world in which everything seems to depend on everything including itself! To bring some order into the apparent chaos, we will explicitly introduce time into our discussion framework and also be very selective in what to include in our analysis thereby differentiating the very important from the not-so-important. Thus in our discussion of the monetary and fiscal policies of Nigeria, we shall limit ourselves to the key issues that dominated the scene in recent years. And, as much as possible, we shall try to be very specific in our definition of goals and instruments.

Policy Targets

Usually, these are broad-based macro-economic aggregates whose behaviour is deemed to indicate, in some way, welfare benefits or disbenefits in the economic system. In the Nigerian case, as indeed in many other cases, these include the following:

- (a) Rate of inflation
- (b) Growth of total output
- (c) Level of employment
- (d) Index of industrial production
- (e) Government budget deficit
- (f) Money supply
- (g) Bank credit
- and (h) External trade balance.

Because of ideas policy makers have about how the economy works, it is intended that when these target variables are influenced in the desired direction, the economic welfare of the citizens will improve. As a result one almost instinctively looks at trends in these variables when assessing the health of the national economy.

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Instruments of Policy

For the purpose of this exercise in which we want to focus on monetary and fiscal policy measures, it may be useful to list separately the monetary policy instruments and the fiscal instruments. It is the attempt to manipulate these policy tools that essentially constitutes conscious effort on the part of the authorities to regulate the national economy. For monetary regulations or control, use is made of the following. [See (5)].

- (a) variable discount rate and the interest rate structure
- (b) open market operations
- (c) variable liquid assets ratio
- (d) cash ratio
- (e) selective credit control
- (f) cash reserve requirements
- (g) special deposits
- (h) moral suasion
- and (i) exchange rate control.

It is unusual to employ all the instruments simultaneously with the same emphasis. Depending on the target of policy and the ultimate objective within a given time variable combinations are used.

For fiscal control, the Government uses the tax system (direct and indirect), tariff measures, budgetary measures and import control.

II RECENT MONETARY AND FISCAL POLICY MEASURES

Monetary Policy Measures

Monetary policy in recent years has been aimed principally at solving the problems of price inflation, low industrial and agricultural production, high rate of unemployment and an unhealthy balance of payments position.

Other objectives of monetary policy during the period have been to protect local industries from unfavourable foreign competition and smugglers; to reduce indebtedness abroad and to generate more revenue especially from the non-oil sector of the economy.

Some of the monetary policy measures adopted to achieve the stated objectives are the setting up of credit ceilings for banks and a sectoral distribution of such credit. For example, in 1983, the rate of aggregate credit expansion by the banks was set at 25 per cent for big banks and at 35 per cent for the small ones. In 1984, the Government decided to limit credit expansion in the country especially to the "non-preferred" sectors of the economy. To this end, the credit ceiling for the big banks was reduced to 12.5 per cent while credit ceiling for the small banks was reduced to 20 per cent during the same period. In 1985, the banks' aggregate loans and advances were not allowed to rise by more than 7 per cent over the outstanding amount as at 31st December, 1984. All these have been aimed at controlling money supply and through it, the rate of price inflation in the economy, in the hope of favourably influencing the economic welfare of the citizens.

Another objective of the Federal Government has been to channel more financial resources to the productive sectors of the economy. To this end, the share of agriculture in commercial banks' loans and advances in 1983 was fixed at 10 per cent. This was also retained in 1984 but in 1985, the share was raised to 12 per cent. During the 1983 and 1985 periods, credit allocation to exports was reduced from 3 per cent in 1982 to 2 per cent for the years after. Similarly, the share of the domestic trade was reduced from 11 to 10 per cent. In 1985, the shares of manufacturing and services were reduced from 36 to 35 per cent and from 12 to 11 per cent respectively. This

measure which may appear to run counter to the objective of channelling more resources to the productive sectors, was introduced in recognition of the reduced demand for credit by the manufacturing industries due to the recession.

This is an illustration of how a trade-off may sometimes have to be tolerated when policy objectives tend to conflict.

Loans and advances to indigenous borrowers were fixed at 80 per cent in 1983, and 90 per cent for 1984 and 1985. Sixteen per cent of the total banks' loans and advances has to be granted to the small-scale enterprises. This measure was aimed at encouraging indigenous entrepreneurs who are often handicapped by a shortage of funds.

The banks were directed to grant 30 per cent of the total deposits collected through their rural branches as loans to the customers in those rural areas in 1983 and 1984. The percentage was raised to 40 per cent in 1985. This is to encourage the rural populace to increase their production in agriculture and small-scale industries. It will also serve the additional purpose of reducing the burden of the rural dwellers in financing urban-based businesses.

In addition, the liquidity ratio of commercial banks is being regulated. The banks have been required to maintain a liquidity ratio of 25 per cent during the entire period under review. Similarly, the cash deposits ratio has been retained between 2 and 5 per cent. The banks have also been required to maintain the ratio between the adjusted capital funds and total loans and advances at one to twelve (1:12) during the period.

Thirdly, a Compulsory Advance Deposits Scheme, which was introduced in 1982, was retained for 1983. This measure was adopted to restrict demand for imports. The required deposit, which was a proportion of the import value, was graduated in such a way that the less essential imports attracted higher percentages of compulsory advance deposits. This measure was discontinued in 1984 because some other measures had been introduced to achieve the same objective. This is an illustration of how the use of instruments may be rationalised when the same objective can be achieved through a less burdensome approach. On the other hand, importers and industrialists had argued that the measure only amounted to the idle tying down of precious funds since the deposits did not earn any interest and could not be invested.

Finally, interest rates adjustment has been made use of to achieve the stated objectives. In 1983 in particular, some changes were made to the interest rates structure. The Minimum Rediscount Rate was fixed at 8 per cent, Treasury Bill issue rate was fixed at 7 per cent while Treasury Certificate issue rate ranged from 7½ to 8 per cent. The commercial banks deposits rates in 1983 ranged between 6½ to 8 per cent while their lending rates from 6 to 13 per cent. In 1984, interest rates were raised by about 1½ to 2 percentage points across the board, except that the lending rate of 7 per cent for agriculture was retained. Also the maximum lending rate of 13 per cent for all purposes, obtained in 1983, was retained for 1984. The 1984 interest rates structure has been retained for 1985 except that lending rates for agriculture were raised to between 8 and 9 per cent.

The gradual increases in the interest rates were aimed at encouraging institutionalised savings in the economy. It has been the objective of the Government to encourage people to save so that funds will be available for productive investment. The increase in lending rates to the agricultural sector in 1985 has been aimed at encouraging banks to lend their funds to that sector. It is common knowledge that the banks have not been too keen over the years to lend funds for agricultural purposes. Thus the emphasis seemed to have shifted from

making funds more cheaply available to potential agricultural investors to that of making the funding of agricultural projects more attractive to the suppliers of funds.

Fiscal Policy Measures

The fiscal policies of the Government during the period under review have the same general thrust as the monetary and economic policies of the Government some of which have already been discussed. The general strategy has been that of mutual reinforcement between fiscal and monetary policy measures, more so as both now have the same time frame. Essentially, the fiscal policy objectives since 1983 have been to stimulate the expansion of agriculture and industry, to reduce the level of price inflation, provide the necessary protection for local industries, and to provide a suitable price incentive framework in favour of increased agricultural and industrial production. Other stated objectives have been to encourage the local production of import-substitution goods by encouraging local industries with heavy local material content, to encourage the dispersal of industrial location, to discourage importation of consumer goods which are available locally in order to curtail outflow of foreign exchange, thereby improving the balance of payments position; and to enhance government revenue. While these objectives are many enough, an examination of the measures actually taken will indicate which objectives received greater emphasis.

The fiscal measures taken in pursuit of these objectives include: the reduction of Government expenditure with a view to reducing effective demand, thus moderating inflationary pressures. In 1983, the Government made some effort to reduce its total expenditure. The effort yielded an estimated reduction in total Government expenditure of about ₦0.7 billion from the 1982 level. Capital expenditure in 1984 was limited to the on-going projects and no provision was made for new ones. Furthermore, effort was made to streamline capital projects in the country. Some projects that were not considered to be of immediate benefit to the economy were stopped and emphasis was placed on the ones that were considered would be of help towards self-sufficiency in the shortest possible time.

To further reduce Government total expenditure especially on the recurrent account, substantial staff reductions were made in Government ministries and parastatals. Recruitment of new staff was limited to areas that seriously needed such staff.

Plans were made to reduce wastage of both human and material resources in all Government establishments. Thus a start was made of a thorough rationalisation of Government budgetary and administrative systems. These measures continued into 1985 and in addition, Government announced the cancellation or reduction of certain allowances hitherto enjoyed by public servants.

Customs and excise tariffs have been re-organised. In 1983, some 152 commodities were added to the list of items which require Specific Import Licences. Industrial raw materials or intermediate goods which hitherto were largely on the Open General Licence were brought under Specific Import Licence in order to enhance governmental control over foreign exchange expenditure. Import duties on a number of items were also raised by between 10 and 150 per cent. A number of items were re-classified and new rates of import tariffs of between 10 and 200 per cent were imposed.

In 1984, customs and excise tariffs were reformed to further provide effective protection for local industries, to reduce the level of unemployment, and to generate more revenue from

the non-oil sector of the economy. The range of import duties was reduced from zero and 500 per cent to between 5 and 200 per cent in 1984 and this was to remain for a minimum of three years. Some 38 items under Schedule II of the Tariff which were granted duty exemption before 1984 were reduced to 20 items. Similarly, the general concessionary rates of duty under which zero duty was granted to some manufacturers was abolished. This measure was aimed at increasing Government revenue and to reduce some notable malpractices that went with the former practices. In order to increase Government revenue, rates of duty of between 5 and 10 per cent were introduced on some items which hitherto enjoyed low rates of duty under the Approved User Scheme.

In order to encourage investment in agriculture and increase local production of food and agricultural raw materials in 1984, duties on machinery and equipment for exclusive use in agriculture were abolished. Similarly, duties on selected imported agricultural products were raised. As exemptions, import duties on wheat and tea were reduced and duties on medical preparations, life-saving appliances, and medical equipment were abolished in 1984. In order to standardise the country's excise duties, it was decided that the base of excisable products be expanded from 68 to 400 and that the products be more clearly identified in terms of precise tariff description than before.

Since it was stated in the 1984 Annual Budget customs and excise tariffs would be unaltered for at least three years, the 1984 customs and excise tariffs also applied in 1985. However, two fiscal measures were introduced in the 1985 budget which are the Advance Payment of Custom Duty and the compulsory payment of a levy of ₦100.00 on every air ticket for journeys outside the African continent. The former is aimed at minimizing fraud and the latter is aimed at increasing Government revenue.

III APPRAISAL OF POLICY MEASURES

A minimum requirement for an objective performance appraisal is the availability of pre-set performance standards against which actual results are judged. This will usually include prior agreement on the range and value of decision variables as success criteria, the presence or absence of which can be established with minimum equivocation. Such a test scheme would minimize the input of value judgement, intuition and educated guesses.

With the possible exception of the Monetary Authority's credit guidelines which specify quantitative magnitudes for changes in monetary variables, the policy objectives have usually not been stated in language easily amenable to quantified testing.

Even the credit guidelines which contain quantitative magnitudes have limited application in the assessment of global economic performance, given the narrowness of their base of application. They are at best good indicators of the performance of the financial institutions that are being regulated.

Another dimension to the appraisal problem is the difficulty of differentiating the impact of one policy measure or set of measures from that of others. Even the most rigorous analytical techniques cannot sufficiently disentangle the maze of inter-relationships and variously assign success or failure to policy measures with a time-space dimension. It is even more difficult empirically partly because of the observed real-world situation in which failure tends to reinforce itself while, on the other hand, it appears "nothing succeeds like success"!

In the circumstances of economic and social underdevelopment, these well-known problems are further compounded by the lack of adequate statistical data to measure and determine the extent of failure or success. The quantity, quality and timing of available statistical information combine to create a yawning gap between what is desirable and what is possible.

One is thus left with the only feasible alternative: that of using the scanty data available to assess, in a more-or-less global sense, the lump-sum effect of all the policy measures taken during a given period. While the loss of analytical rigour is lamentable, the global approach has the advantage of providing a needed summary index of the general direction in which the economy appears to be moving — either for better or for worse!

So, what has been the story told by our recent experience in monetary and fiscal policy management? Have we been achieving our objectives? Or, more generally, have we been moving in the general direction of success? What do the signs show? While these questions may be answered variously depending on the angle from which an observer looks at our economic performance, we elect here to answer these questions by reference to selected indicators as measured by the available data for recent years. These indicators are total output, industrial production, prices, Government deficits and the external current account balance.

Aggregate Output and Industrial Production

The gross domestic product (GDP) at constant 1977/78 factor cost grew at an average rate of 2.3 per cent between 1970/71 and 1985. (See Table 1). This growth rate of total output is significantly lower than the estimated 2.5 per cent annual population growth rate for the same period. This means that the **per capita** real output has in fact been declining over the period. When one adds the uneven socio-spatial distribution pattern of the little real growth in aggregate output that took place, one would begin to see the very adverse welfare implications of a real negative **per capita** growth rate of total output. As if that secular trend is not bad enough, the real growth rate of total output between 1980 and 1985 has actually been negative — an annual average of -2.7 per cent. This means that real **per capita** output — given a population growth rate of 2.5 per cent per annum — has actually declined by a whole 5.2 per cent annually. That figure will definitely be higher for many regions and economic and social groups.

Between 1980 and 1985, the index of industrial production (1972 = 100) declined from 190.8 to 168.4. (See Table 2). This represents an average annual decline of 1.9 per cent during the period. Since the industrial sector usually gives leads in the genesis and timing of business cycles, the performance of the business sector has important implications in the assessment of what leverage fiscal and monetary policies have on cyclical movements.

Moreover, the general mechanism for generating cyclical movements using fiscal and monetary policy tools in supply side management works through the industrial sector which responds to incentives and disincentives emanating from such policy measures. It follows that what happens in the industrial sector says much about the efficacy of the policy package in vogue.

Looking more closely at the industrial sector during the past six years, one sees a little silver lining in the shape of a positive annual average growth rate of manufacturing production. It is 1.9 per cent for the period 1980-1985. The silver lining tends to fade away against a background of an insignificant

proportion of the GDP which the manufacturing sub-sector represents. Its contribution is also heavily circumscribed by its limited employment-generating capacity and exposure to rather unfair international competition. What this means for the efficacy of economic policy is that, even if it achieves remarkable success in motivating this sub-sector, the leverage it can have on total level of economic activity and therefore the welfare of Nigerians, is somehow limited. In any case, the mining sub-sector, with its negative growth rate during the past six years (-5.1 per cent) has more than swamped whatever contributions were made by manufacturing and electricity generation in the industrial sector.

Price Movements

One useful indicator of the level of monetary stability is the general price level. To a great extent, it measures a relationship between the quantity of money in circulation and the volume of goods and services produced in the economy. So any policy package designed to ameliorate inflationary pressures or ensure monetary stability will have to do at least one of the following things: (1) moderate the rate of increase of monetary aggregates, (2) increase the supply of goods and services, (3) do both (1) and (2) together, and (4) effect a more even distribution of what goods and services are produced in the economy. It follows that the effectiveness or otherwise of monetary and fiscal policy measures is not independent of the behaviour of the general price level.

Nigeria's inflation rate, as measured by the consumer price index, between 1970 and 1985 fluctuated between the lowest point of 3.2 per cent recorded in 1972 and the highest point of 39.6 per cent in 1984. (See Table 3). For the whole period, it averaged out at 16.1 per cent. For the past six years it averaged 17.8 per cent, indicating a general upward trend. The implicit GDP deflator (1977/78=100) averaged 14.4 per cent for the period 1970 to 1985 and 7.3 per cent during the last six years. (See Table 1). There is not enough data to decompose the inflation rate into sectoral and socio-spatial elements. The most that can be said for the inflation control effort in recent years is that the results have been mixed.

The Public Sector Deficit

It has been conclusively established that there is a strong and direct relationship between the size of the public sector deficit and monetary instability, at least in the Nigerian case. (See (5,10,11)). Because of the dominant role Government plays as employer and consumer of resources and the given fiscal mechanism for dispensing the foreign exchange resources of an essentially mono-cultural economy, the size of the public sector deficit has become an important, if not *the* determining factor in the growth of monetary aggregates in Nigeria.

Between 1980 and 1985 the budget deficits of the Federal Government as a proportion of total estimated revenue averaged 37.6 per cent. (See Table 4). And in the last three years, it averaged 46.6 per cent. For the whole period there was no year the Federal Government was able to balance its budget. This means the Federal Government has actually been spending far more than it has been receiving, thus fuelling inflationary pressures, if inadvertently.

The performance of the State Governments has been more pathetic. On the average their combined deficit as a proportion of estimated total revenue, averaged 90.6 per cent. (See Table 5). In fact, for the years 1982 and 1983, the deficit alone was actually higher than revenue by 46.4 and 47.2 per cent respectively. This means that, for those two years, total expenditure was more than double total revenue!

The External Trade Balance

In an open economy with a substantial external sector and in which most industrial inputs are imported, the external trade balance will have a lot to say about the performance of the domestic economy. If the current account balance is persistently unfavourable, it means the country is paying out more than it is receiving on current transactions. This, of course, means a depletion of reserves unless capital inflows come to the rescue. If such adverse condition continues for a long time, pressure will be mounted on the external value of the domestic currency. This may result in either outright devaluation or a gradual depreciation of the currency; either of which generates inflationary pressures. If the authorities refuse to do both sufficiently, an illegal fringe market may develop which somehow works a big drain on official reserves anyway.

Considering the period, 1980 to 1985, there were three years in which the external current account balance was unfavourable. These were 1981, 1982 and 1983. (See Table 6). The total deficit (or net outflow) during those three years was ₦12,037.9 million while the total surplus (or net inflow) for the remaining three years was ₦3,778.2 million. This means that the period saw a net outflow of ₦8,259.7 million which represents the extent to which foreign exchange reserves would be depleted in the absence of capital flows. Luckily, capital flows ameliorated the severe impact these current account transactions would have had on the reserve position. During the period, reserve movements showed a total increase of ₦4,318.1 million and a total decrease of ₦4,720.4 million.

Hence the reserves were depleted only to the tune of ₦402.3 million.

IV LESSONS FROM OUR EXPERIENCE

In its opening paragraph, the Annual Report of the Central Bank of Nigeria for 1984 has this to say: "The Nigerian economy remained depressed in 1984, although there were encouraging improvements in some major sectors". How much blame should be apportioned to monetary and fiscal policies for the "continued depression" and how much credit should they be given for the "encouraging improvements" noticed in 1984, or in any other year for that matter?

The brief general appraisal done in Section III above, perhaps may give some clues as to how these questions should be answered given the Nigerian experience of the past few years. Whatever the verdict, some important lessons should be learnt from what has resulted from our experience so far in designing, implementing and monitoring monetary and fiscal policies since the end of the civil war. It has not been possible here to present a detailed analysis of *how* these lessons have been arrived at. But anyone sufficiently familiar with the Nigerian situation will agree that the following lessons are a direct fallout from an inside knowledge of what makes the economy tick.

Lesson One: Conventional tools of monetary control have limited efficacy under conditions of economic and social underdevelopment. In fact the resort to direct control measures in Nigeria is a tacit admission that conventional tools are inadequate. The level of differentiation and articulation of sectors and markets does not, as yet, permit an efficient regulation of monetary and financial activities with tools such as open market operations and manipulation of the discount rate.

Lesson Two: Even when one hundred per cent success is achieved through direct control of the banking system, such as by the use of credit guidelines, the monetary authority would have controlled only an insignificant proportion of the aggregate stock of money in the economy.

In any case one hundred per cent success has never been achieved in the control of commercial and merchant banks.

Lesson Three: Supply-side factors are becoming increasingly potent in determining the general price level, and aggregate demand management alone cannot adequately control inflation in Nigeria.

Lesson Four: The most important and yet most difficult single macro-economic aggregate to control in Nigeria is Government's expenditure. In fact, Government deficit is a big factor in Nigeria's monetary stability.

Lesson Five: To achieve any significant positive result and to sustain it, there must be a realistic package of policies (monetary, fiscal and others) accompanied by *the will* to implement them effectively.

V SUMMARY AND CONCLUSION

In this discussion, effort has been made to avoid the familiar path of a mere recounting of events, but to look at the whole issue rather analytically in the context of the challenges posed by the fact of economic and social underdevelopment. The framework for the analysis has deliberately included the issue of policy instruments, targets and objectives so that readers can more easily visualise the problem in a dynamic setting.

Attempt has also been made to highlight the specific monetary and fiscal policy measures which have been pursued in Nigeria in recent years. In doing so attention was drawn to the issues of continuity and shifts in policy stance. The entire package of policies has also been appraised as basis for drawing lessons. The lessons that have been drawn are based on actual experience in Nigeria and the results obtained from a dispassionate analysis of facts and figures, the type normally available to an insider.

It is now left for the reader to assess for himself what importance to assign to monetary and fiscal policies in the design of overall macro-economic management strategy suitable for Nigeria.

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Table 1

GROSS DOMESTIC PRODUCT

Period	At Current Factor Cost		At Constant 1977/78 Factor Cost		GDP Deflator 1977/78 = 100	
	₦ Million	% Change	₦ Million	% Change		% Change
1970/71	5,205.1	—	19,422.0	—	26.8	—
1971/72	6,570.7	26.2	21,453.3	10.5	30.5	13.8
1972/73	7,208.3	9.7	22,811.1	6.3	31.6	3.6
1973/74	10,990.7	52.5	24,168.5	6.0	45.5	44.0
1974/75	18,298.3	66.5	27,120.4	12.2	67.4	48.1
1975/76	20,957.0	14.5	26,479.8	-2.4	79.1	17.4
1976/77	26,656.6	27.2	27,259.5	2.9	97.8	23.6
1977/78	31,283.4	17.4	31,283.4	14.8	100.0	2.2
1978/79	33,375.3	6.7	29,443.1	-5.9	113.4	13.4
1979/80	39,933.6	19.7	31,220.4	6.0	127.9	12.8
1980	47,040.9	17.8	30,325.2	-2.9	155.1	21.3
1981	50,658.3	7.7	29,907.5	-1.4	159.8	3.0
1982	53,859.4	6.3	29,909.2	—	170.9	6.9
1983	53,347.2	-1.0	27,359.9	-8.5	172.9	1.2
1984	55,249.2	3.6	25,854.2	-5.5	180.3	4.3
1985*	58,346.3	5.6	26,472.5	2.4	—	—

Source: Federal Office of Statistics Lagos

*Estimates of the National Planning Office, Lagos.

Table 2

INDEX OF INDUSTRIAL PRODUCTION

(1972 = 100)

	Manuf.		Mining		Electricity		Total of all Sectors	
		% Change		% Change		% Change		% Change
1980	344.7	—	113.0	—	271.7	—	190.8	—
1981	394.9	14.6	78.5	-30.5	324.7	19.5	185.5	-2.8
1982	447.0	13.2	70.3	-10.4	344.8	6.2	206.7	11.4
1983	319.0	-28.6	67.3	-4.3	352.8	2.3	154.6	-25.2
1984 ¹	280.8	-12.0	76.1	13.1	316.5	-10.3	147.0	-4.9
1985 ²	334.8	19.2	81.2	6.7	334.3	5.6	168.4	14.6

¹Revised

²CBN Estimates

Source: Derived from F.O.S., NNPC and NEPA data.

Table 3

Year	Consumer Price Index (1975 = 100)	Inflation Rate
1970	150.6	13.8
1971	174.1	15.6
1972	179.6	3.2
1973	189.3	5.4
1974	214.7	13.4
1975	287.4	33.9
1976	348.2	21.2
1977	143.0	15.4
1978	166.7	16.6
1979	186.3	11.8
1980	204.8	9.9
1981	247.5	20.9
1982	266.5	7.7
1983	328.4	23.2
1984	458.4	39.6
1985	483.7	5.5

Source: Federal Office of Statistics, Lagos.

Table 4

FEDERAL GOVERNMENT BUDGET DEFICITS

	1980	1981	1982	1983	1984	1985
1. Revenue (Nm.)	15,234.0	11,978.9	11,748.8	9,306.7	11,331.7	11,237.0
2. Expenditure (Nm.)	14,113.9	10,774.4	12,378.5	11,664.6	10,342.6	11,569.5
3. Deficits (Nm.)	-1,975.2	-3,708.5	-4,888.1	-6,103.7	-3,598.7	-4,776.6
4. (3 ÷ 1)%	13.0	31.0	41.6	65.6	31.8	42.5

Source: CBN Annual Reports

Table 5

STATE GOVERNMENTS BUDGET DEFICITS

	1980	1981	1982	1983	1984	1985
1. Revenue (Nm.)	3,938.8	6,108.3	4,335.4	4,647.1	4,503.5	5,427.0
2. Expenditure (Nm.)	7,334.4	10,990.9	10,680.5	11,485.4	7,064.9	7,017.7
3. Deficits (Nm.)	-3,295.6	-4,882.6	-6,345.1	-6,838.3	-2,561.7	-1,590.7
4. (3 ÷ 1)%	83.7	79.9	146.4	147.2	56.9	29.3

Source: CBN Annual Reports

BALANCE OF PAYMENTS — SUMMARY STATEMENT
(₹'million 1980-85)

Category	1980	1981	1982	1983	1984	1985 ¹
CURRENT ACCOUNT	2,355.3	-3,998.4	-4,879.5	-3,160.0	+94.6	+1,328.3
Merchandise	6,132.7	-703.5	-1,810.2	-781.4	+2,299.8	+3,825.9
Exports	14,186.0	11,023.3	8,206.4	7,502.5	9,088.0	+11,214.8
Imports	-8,053.3	-11,726.8	-10,016.6	-8,283.9	-6,788.2	+7,388.9
Service and Income (Net)	-3,462.2	-2,948.4	-2,779.9	-2,092.8	-1,951.4	-2,497.6
Unrequited transfers	-315.2	-346.5	-289.4	-285.8	-253.8	-232.0
LONG-TERM CAPITAL (NET)	-48.0	833.1	1,026.8	+1,373.8	-39.3	-35.3
Direct Investment	-404.1	334.7	290.0	+264.3	+144.5	+311.8
Portfolio Investment	—	—	—	—	—	—
Other capital (long-term) (Net)	356.1	498.4	736.8	1,109.5	-183.8	-347.1
Official	330.3	480.0	720.3	1,092.1	-432.2	-472.7
Other	25.8	18.4	16.5	17.4	+248.4	+125.6
Balance on Current Account and Long-term Capital (Basic Balance)	2,307.3	-3,165.3	-3,852.7	-1,786.2	+55.3	+1,293.0
OTHER CAPITAL (Short-term) (Net)	145.4	96.4	2,444.1	+1,361.4	+106.1	-167.0
Balance on Current and Capital Accounts	2,452.7	-3,068.9	-1,408.6	-424.8	+161.4	+894.0
Balancing Item	-50.5	48.1	10.3	+123.5	+193.4	-332.9
Overall Balance	+2,402.2	-3,020.8	-1,398.3	-301.3	+354.8	+561.1
Reserve Movement ²	-2,402.2	+3,020.8	+1,398.3	+301.3	-354.8	-561.1
Stock of Reserves	5,469.1	2,424.8	1,026.5	676.7	1,054.4	1,619.3

¹ Provisional

² Minus (-) sign indicates increase in assets/decrease in liabilities. Plus sign (+) indicates decrease in assets/increase in liabilities.

PROBLEMS OF MONETARY AND FINANCIAL INTEGRATION IN ECOWAS¹

S. E. OMORUYI²

Abstract

The paper examines the problems of monetary and financial integration in the ECOWAS sub-region. It traces the origins of these problems to the post-colonial era when sentimental attachment to issues of sovereignty, development of national currencies and the imposition of payments restrictions took their roots. Given the background of these problems, the paper makes a number of recommendations, such as the need to adopt a common currency and more realistic exchange rates, for forging greater monetary co-operation in the sub-region.

Introduction

Since the inception of the Economic Community of West African States on May 28, 1975 and the later adoption of the protocols in Accra, the community has continued to grapple with problems. A great many public servants and African scholars in particular have dwelt exhaustively on the

potentialities of the community for realising the global objective of raising the standard of living of the ECOWAS citizens and of contributing to Africa's development. A major channel for achieving this as contained in the Treaty includes the elimination of all types of obstacles to the free movement of goods, capital and persons.

However, there are a number of constraints, economic, social and political, that are likely to limit the quick realisation of the economic union. The focus of this paper is largely on the monetary and financial constraints. For purposes of easy exposition, the paper has been divided into five parts. Part I highlights the theoretical concepts of integration. Part II discusses early attempts at monetary integration. Part III focusses on the problems of integration. Part IV highlights the institutional arrangement, the West African Clearing House (WACH), designed to accelerate integration efforts. Part V contains the paper's conclusions and recommendations for policy.

PART I

Concept of monetary integration

Monetary integration is the monetary unification of participating member countries in an economic union and involves the adoption of common currency, co-ordinated exchange-rate policies, and harmonization of fiscal and monetary policies.³ It is a process that can only be envisaged during the final stages of economic integration.

The final stages are those of an "economic union" and "total economic integration".⁴ Under the stage of an economic union, restrictions on commodity and factor movements are abolished among member states and some degree of harmonization of economic, monetary, fiscal and social policies is undertaken. The highest degree of economic integration — the last stage — is total economic integration which involves the unification of monetary, fiscal, social and other policies and requires the establishment of a supra-national agency whose decisions are binding on all member states.

Corden⁵ is agreeable with Nana-Sinkam on the above definition of monetary integration but emphasizes that the concept essentially involves:

- (i) an exchange-rate union, i.e. an area within which exchange rates bear a permanently fixed relationship

to each other even though the rates may, in unison, vary relative to non-union currencies; and

- (ii) convertibility — the permanent absence of all exchange controls, whether for current or capital transactions, within the area.

Thus the adoption of fixed exchange-rate margins among the currencies of member states, or the adoption of a common single currency, the pooling of foreign exchange reserves, a common Central Bank, factor mobility and harmonization of monetary and fiscal policies are the key ingredients of a durable monetary union.

There is, however, a related but wider concept of financial integration. This is the integration of organised or formal capital markets such as the Stock exchange in the participating member countries of the economic union. Such integration would involve a harmonization of regional financial markets, particularly with respect to interest rates on securities and capital transactions. Financial integration also involves co-ordination of trading in community securities, of issuance of financial instruments to finance community projects at agreed locations, etc.⁶

¹Also presented at the 4th Biennial Conference of the West African Economic Association held at Lome, Togo in March, 1987.

²Mr. S. E. Omoruyi is Deputy Director of Research, Research Department, Central Bank of Nigeria.

³S. C. Nana-Sinkam, *Monetary Integration and Theory of Optional Currency Areas in Africa*, Mouton Publishers 1978, The Hague.

⁴The first three stages of economic integration identified in the literature are the free trade area where tariffs and other trade restrictions between members are abolished; the Customs Union which involves the abolition of discrimination in movements of commodities and the erection of a common tariff wall against non-members; the third stage is the common market where trade restrictions and impediments to factor movement are abolished.

⁵Corden, W. M., *Monetary Integration*, Essays in International Finance, N.93, Princeton University; Princeton, 1972 P.2.

⁶Basch, A., *Capital Markets of the European Economic Community — Problems of Integration*, Graduate School of Business Administration, The University of Michigan, 1965.

PART II

Monetary zones in the sub-region

Having discussed, albeit briefly, the theoretical concepts of monetary and financial integration, we shall in this section dwell on monetary zones in the sub-region — the source of major problems of monetary integration.

Sterling Monetary Zone

The Currency Board system marked the beginning of monetary integration in British West Africa. For approximately fifty years, monetary integration was operated but it had defects. Commenting on the Board system, J. Mars,¹ a writer on colonial currency system observed that:

The West African Currency Board is in fact not a money issuing bank with power to vary the amount of currency at will but merely a passive money changer which receives superior money ie. London sterling and gives in return token money ie. West African Currency.

However, with the advantage of hindsight the currency Board system had some merit. It provided confidence in the currency and ensured to a large extent stability in the internal and external value of the local currency, for instance, and was convertible in all parts of Africa and Europe through its link to sterling. It also provided a good basis for economic integration of the member countries.

The Franc Monetary Zone

Before 1945 the currency arrangement evolved by France for her colonial territories in West Africa was handled by the Bank of West Africa established in 1901 exclusively to issue Franc notes into circulation in French West Africa colonies.² The Bank which absorbed the Bank of Senegal established earlier in 1856, had its head office in Paris, with branches in Conakry, Port Novo, Dakar, Grand-Bassam and Duala.

In 1955, the right of note issue was, however, transferred from the Bank of West Africa to a publicly-owned institution Institut d'Emission de l'Afrique Occidentale Francaise et du Togo. This bank was given an additional function of a bank of last resort. Its name was changed to la Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) in 1959

The Currency System of the Post-Independence period

Soon after the attainment of political independence by countries of West Africa, the colonial currency system of British West Africa crumbled in the wake of establishment of national Central banks in all West African countries as well as indigenous and state-owned commercial and development banks. During this period, Ghana departed in 1957 from the inherited systems of monetary integration by pulling out of the West African Currency Board system. She was followed by Nigeria in 1959, Sierra Leone in 1963, and The Gambia in 1975. The abandonment of currency integration policies in British West African countries reflected largely the desire of those countries to assert political independence, thus bringing an end to the pre-independence monetary integration that existed in the Anglo-phone zone.

On May 12, 1961, France concluded an agreement on economic, financial and monetary co-operation with the

French-speaking countries of West Africa to form a monetary union, namely, the West African Monetary Union (Union Monetaire l'Ouest Africaine — UMOA), embracing Benin, Ivory Coast, Niger, Mauritania,³ Senegal, Upper Volta (now Bourkina Fasso) and Togo. The powers of BCEAO were widened to include the functions of a common Central bank for the seven member states. The bank's functions include the issue of a common currency, the Communaute Financiere Africaine or CFA Franc. Some other features of this Bank are as follows:

- (i) The CFA Franc is fixed to French Franc and equals 0.02 of the French Franc; or 50 CFA Franc to 1 French Franc;
- (ii) The external reserves of all the participating countries are pooled under the control of BCEAO and are held exclusively in the form of French Francs;
- (iii) Payments and receipts in foreign currency of the BCEAO are settled through an account called the Operations Account with the French Treasury;
- (iv) France guarantees unlimited conversion of the CFA Franc into French Franc. This guarantee operates through the French Treasury providing automatic overdraft facilities to the BCEAO especially when the Operations Account goes into red;
- (v) In line with other Central banks in the Anglophone area, the BCEAO is empowered to exercise credit controls and to prescribe credit ceilings not only for each country but also within each country for each bank and enterprise. The BCEAO can also vary the rediscount rate and it can also prescribe liquidity ratios for banks;
- (vi) The monetary management system of the UMOA does not permit exchange rate changes as a policy option nor is there freedom for individual countries to pursue unco-ordinated monetary expansion. Rather the member countries have accepted the beneficial discipline arising from the collective use of strict fiscal, monetary and pricing policies for the management of their economies;
- (vii) The development of the less developed members of UMOA is encouraged by a resource transfer strategy that employs a less stringent application of the fiscal rules on such countries. This process is further directly assisted by the industrial redistribution strategies of the West African Development Bank (BOAD), the investment banking counterpart of the BCEAO within UMOA.

The UMOA arrangement remains in force although Guinea, Mali and Mauritania broke away from the franc zone at different times. However, Mali re-entered the union in July, 1984.

In what follows a discussion of the numerous problems of monetary integration including monetary credit and fiscal disharmony emanating from the above post-independence monetary systems of the sub-region, is undertaken.

¹J. Mars, *Mining, Banking and Commerce in Nigeria*, 1948.

²The French West Africa consisted of Dahomey (now Benin), Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta (now Bourkina-Fasso). Togo was later included.

³Mauritania withdrew from the union in 1972.

PART III

Problems of monetary and fiscal disharmony

Monetary constraints

It was mentioned in Part I of this paper that while the French-speaking countries in the UMOA in the sub-region continue to use the CFA franc as their common currency, countries in British West Africa adopted their individual currencies soon after attaining political independence. The multiplicity of these currencies and the inconvertibility of most of them create problems for payments arrangements and inter-state commercial transactions. Currency inconvertibility impedes a free flow of goods and services and capital movements and unilateral transfers. Thus, ECOWAS member states have had to settle most of their foreign trade balance in scarce non-regional currencies such as the Pound Sterling, the French Franc and the U.S. dollar.

The best way to avoid the above problems is to adopt a monetary union. However, the road to monetary union is a very difficult one: For instance, under a monetary union individual member countries would forgo their rights to determine their credit policy. Instead such policy would have to be determined by a centralised body. Here we are faced by the problem of ascertaining the rate of credit expansion that is adequate for each economy.

A monetary union calls for uniformity in interest rates in order to avoid distortions from capital flows within the union. Again, this is problematic since in reality the same interest rate cannot meaningfully hold for each country in the sub-region. An appropriate interest rate level in one country may be inappropriate for another, given differing levels of infrastructural development. Thus the problem of harmonization of interest rates constitutes a major constraint to monetary integration.

Fiscal Policy Constraints

In the sub-region there exists a panoply of different tariff arrangements with differing rates of customs duties. The duties are designed partly to earn increased revenue for government and partly to shield domestic industries from competition from foreign producers. In a monetary union, there is the problem of lowering of tariff walls under the union policy of trade liberalisation. This problem derives from the fact that most countries of the sub-region depend largely on customs and excise duties as sources of revenue.

There are asymmetries in overall tax structures in the sub-region and size of government budgets varies from country to country. There is then the problem of devising ways of harmonizing the tax structures, sizes of government budgets including different profiles of overall borrowing requirements of each government in the union.

Exchange rate constraints

There exist different exchange rate regimes¹ in the sub-region. By and large, four exchange rate regimes in

ECOWAS have been identified. (See Table I, Appendix). These include currencies that are pegged to major traded currencies; currencies that are pegged to the SDR; currencies that are pegged to a basket of currencies; and finally, currencies of which the exchange rate is determined by a managed or independent float. The regimes have implications for the degrees of overvaluation or undervaluation of the various currencies. The francophone member countries of the UMOA group tend to maintain undervalued exchange rates whereas different degrees of overvaluation characterise the exchange rate regimes of the Anglophone members of ECOWAS — Ghana, Nigeria and Sierra Leone. Interestingly, the non-UMOA countries of The Gambia, Liberia and Mauritania tend to maintain currencies that are substantially undervalued.² There is then the problem of arriving at an exchange rate for each member country currency that would “equilibrate” the balance of payments not only for her economy but for the sub-regional economy as a whole.

It will be observed that member countries of ECOWAS are at different levels of economic development. Thus maintaining a common exchange rate in line with the requirements of a monetary union could result in undesirable distortions, as the common rate may tend to favour some member countries.³

Problems of financial integration

Financial integration involves the harmonization of the capital markets in the sub-region. It suggests *inter alia* the need for member states to streamline real interest rates on securities of the same type and quality throughout the community. It also calls for elimination of any asymmetries that exist in the interest rates charged on capital transactions. Financial integration also suggests the need for joint issuance of financial instruments when the need to finance community projects arises.

Besides the obvious problems inherent in the above, largely problems of implementation, there are in ECOWAS member countries a number of legislations discriminating against foreign securities or against the export of domestic securities. These laws have to be reviewed; in particular, company law and tax laws need to be harmonized.

Political problem

Although ECOWAS is eleven years old, nation states in the community still seem to guard their sovereignty. An integration problem would arise where the expected co-operation in implementing agreed-upon protocols is not forthcoming from member states because of their strong attachment to notions of sovereignty. Thus the pace and successful implementation of monetary integration in the community would depend largely on political will.

¹An exchange rate regime may be defined as or denoted by the system or method by which the exchange rate is determined.

²ECOWAS, *Creation of a Single ECOWAS Monetary Zone*, Lagos February, 1986. (Unpublished ECOWAS Study).

³S. M. Nsouli, *Ibid.*, P.44.

PART IV

Problems of the West African Clearing House (WACH)

An analysis of the problems of monetary integration would be incomplete if mention is not made of an institutional arrangement — the WACH — established and designed to foster monetary co-operation within the sub-region. This section therefore discusses the WACH and the problems encountered in its efforts at promoting sub-regional limited currency convertibility.¹

Established in 1975 under an agreement by the West African Central Banks, the WACH had the following aims and objectives:

- (a) to promote the use of the currencies of the members of the Clearing House² for sub-regional trade and other transactions;
- (b) to bring about economies in the use of foreign reserves of members of the Clearing House;
- (c) to encourage the members of the Clearing House to liberalise trade among their respective countries;
- (d) to promote monetary co-operation and consultation among the members of the Clearing House.

Of these objectives, the most important, at least, from the point of view of this paper, is that of the promotion of convertibility of regional currencies and thereby the saving in the use of foreign exchange such as the U.S. dollar, Pound Sterling, French Franc, etc. However, being themselves very conscious of the shortage of convertible currencies in the region, the Central Banks were of the view that the best means of ensuring regional convertibility was to enforce prompt settlement. Therefore, the settlement rules in WACH were designed to ensure the minimum of delay.

Unlike some clearing systems in other third world regions³ WACH made no provision for the creation of a fund or direct bilateral contributions to facilitate the settlement of protracted debtor balances. The credits available in the system are related to volumes of previous transactions and stipulate a country minimum of 500,000 WAUA⁴ (West African Unit of Account) for debit positions and 1,000,000 WAUA for creditors. All debtor positions are expected to be settled monthly and promptly on demand and not later than 15 days after the month to which the debt relates. The WACH's function is to monitor these transactions in a capacity little more than that of an accounting office.⁵

Problems of WACH

A major problem which frustrates the realisation of the principal objective of the WACH, namely, promotion of larger use of regional currencies in regional transactions, has been the observed low and reducing volumes of compensable trade.⁶ This means that adequate volumes of intra-regional exports do not compensate the volume of imports and vice-versa. Thus trade between the member countries was not balanced, so that very large amounts of merchandise trade still had to be settled by the use of external (non-regional) convertible currencies, (see Tables 2 and 3).

As is evident in Table 2, trade imbalances were, for instance in 1980, most pronounced in intra-regional trade relations with Nigeria, Ghana, Mauritania and Sierra Leone. Thus the need for non-regional currencies for the settlement of trade with those countries was quite high as figures in column 5 of the Table show. The observation was also true for the UMOA countries as a group. The analysis in Table 3 line 9 shows that in the WACH the percentage of transactions that require non-regional currencies to settle trended upward in the quinquennium 1976-1980. Since 1980 there has been no reversal of the trend. Thus the achievement of the cardinal objective of limited currency convertibility has eluded the WACH mechanism.

A related problem confronting the WACH has been the accumulation of debtor balances. This again contradicts an important condition for limited convertibility of soft currencies within the clearing house, namely, the undertaking at Central bank level for prompt settlement as advised by the Clearing House in accordance with the provisions of Articles VIII and IX of the Clearing House Agreement. The debts have been owed largely to BCEAO and National Bank of Liberia.

The reality, however, that WACH is merely a clearing agency has not helped matters. This is so because the WACH has no provision in the Agreement for the creation of a fund or direct bilateral contributions to facilitate the settlement of debtor balances. Thus, as presently constituted the WACH mechanism is fraught with difficulties that constrain its role as an instrument of monetary co-operation in the sub-region.

¹Limited currency convertibility may be defined as "the unrestricted exchange and use of the currencies of countries within the region vis-à-vis each other ie. where all exchange restrictions vis-a-vis the other currencies of the group have been eliminated". For further details see IMF, *Currency Convertibility in the Economic Community of West African States*, 1980 (Unpublished IMF Study for Executive Secretariat of ECOWAS).

²The list of member Central Banks of the WACH is as follows: Central Bank of West African States (BCEAO), Central Bank of The Gambia (Gambank), Bank of Ghana (Ghanabank), Central Bank of the Republic of Guinea (Bareg), National Bank of Guinea Bissau (Banguine), National Bank of Liberia (Batbank), Central Bank of Mauritania (Rimbank), Central Bank of Nigeria (Cenbank) and Bank of Sierra Leone (Coppersafe).

³Examples of clearing systems with credit facilities include the CARICOM Multilateral Clearing facility established in 1977 for member states of the Caribbean Community; the Central American Clearing House (1981), the ALADI Clearing System established in 1969 and revised in 1981 for the eleven Latin American countries.

⁴1 WAUA=SDR 1

⁵J. Frimpong Ansah, *A Preliminary Study on Financing Mechanisms at Central Bank level in the ECOWAS Sub-region in support of a process of Trade Liberalization and for the settlement of Debtor Balances in the West African Clearing House*; UNCTAD Study Project RAF/77/032, February 1983 (Unpublished mimeo).

⁶Compensable trade is the volume of merchandise transactions which go through the clearing mechanism and which are settled in regional currencies. The concept is different from that of "settled trade" which is the proportion of ECOWAS regional total trade that is settled in convertible non-regional currencies such as the U.S. dollar, Pound Sterling, etc.

PART V

Conclusions and Recommendations

This paper has examined the problems of monetary and financial integration in the ECOWAS sub-region. In the process, it made forays into early attempts at monetary co-operation through institutional arrangements such as the BCEAO — the common Central bank of the francophone West African countries — and the defunct West African Currency Board which served the Anglophone countries in the sub-region. However, with the attainment of political independence by the nation states of ECOWAS, the Anglophone countries among them established their individual Central banks and abandoned the West African Currency Board system.

Such was the genesis of the current problems of the sub-regional monetary and fiscal disharmony. The assertion of the freedom of independence and the needs for economic management of fledgling economies, particularly among the Anglophone countries were reflected in the establishment of various national currencies and the emergence of payment restrictions designed to protect nationalistic interests. The sentimental attachment to issues of sovereignty, development of national currencies, and existence of exchange rate regimes and payments restrictions have featured prominently in the mainstream of problems that could frustrate the achievement of a monetary union in the sub-region.

The paper has also discussed the WACH mechanism which is an institutional arrangement designed to foster intra-regional trade through *inter alia* the promotion of the use of currencies of member countries of ECOWAS. Even so, this instrument of monetary co-operation is beset with problems: they range from excessive recourse to use of non-regional currencies following the observed low and reducing volumes of compensable trade to WACH's inability to arrest the accumulation of debtor balances through prompt settlement.

Therefore, in order to minimise the above problems and forge monetary co-operation for purposes of increased intra-regional trade and enhanced standards of living of citizens in the community, the following recommendations are suggested:

1. In view of the serious problems inherent in the existence of many currencies with varying degrees of convertibility, there is need to adopt a common currency. The common currency may be modelled after the UMOA common currency system. The current ECOWAS study on the creation of a single ECOWAS monetary zone should be pursued vigorously with a view to finding a suitable way of adopting a common currency and resolving the common currency guarantee problem;
2. Given the need to attract increased trade to WACH, illegal border trade would have to be seriously curtailed through the adoption by member countries of more realistic and market-related exchange rates. Such rates could also minimise considerably the problems of overvaluation of national currencies, especially those of the Anglophone countries. Countries in the ECOWAS sub-region may thus have to accept to undergo the discipline of exchange rates adjustments through substantial devaluations of their currencies;
3. Considering the existence of disharmony in member countries' monetary, credit and fiscal policies, some form of harmonization is required in these areas to serve the overall interests of member countries of the sub-region;
4. The WACH would further the achievement of limited currency convertibility if it is endowed with capacity to provide short-term financial support or credit to clear debit positions in situations of temporary liquidity shortage of debtor countries. This will encourage member countries to increase and liberalise their intra-regional trade as they can find an assured source of short-term trade finance. The burden of creditor countries in extending involuntary short-term credit will also be lightened. Thus WACH would be not only a clearing but also a settlement agency. It should be noted, however, that given the seemingly permanent debtor positions of some member countries, the creation of a special fund to finance the deficits may serve only as mere palliatives to the problem;
5. There is need for member states to exercise a greater degree of co-operation than is the case at present, such that agreements regarding protocols, etc. are not frustrated by lack of political will to implement them. Certainly, implementation would involve, in some cases, surrender of part of absolute sovereignty; but this short-term cost is inevitable so long as member states are really determined to forge a monetary union with all expectations of long-term benefits to the community.

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Appendix

Table 1

Types of Exchange Regimes in ECOWAS

Country	Pegged to Major Currencies	Pegged to SDR	Pegged to a Basket of Currencies	Flexible Exchange Rate
Benin	X			
Cape Verde			X	
The Gambia	X			
Ghana				X
Guinea		X		
Guinea Bissau		X		
Ivory Coast	X			
Liberia	X			
Mali	X			
Mauritania			X	
Niger	X			
Nigeria				X
Senegal	X			
Sierra Leone	X			
Upper Volta (now Bourkina Fasso)	X			

X = indicates applicable exchange rate regime.

Table 2

ECOWAS REGIONAL TRADE (INCLUSIVE OF OIL) THEORETICAL MAXIMUM COMPENSABLE TRADE						
1980	\$ million					
	Imports (1)	Exports (2)	Total (3)	Compensable (4) (lower × 2)	Settled (5) (3-4)	% Settled (6) (5÷3)
UMOA						
(incl. Mali ¹)	136.05	67.12	203.17	134.24	68.93	33.93
Cape Verde	0.40	—	0.40	—	0.40	100.00
Gambia	5.76	6.20	11.96	11.52	0.44	3.68
Ghana	241.00	40.40	281.40	80.80	200.60	71.29
Guinea	3.88	1.68	5.56	3.36	2.20	39.57
Guinea-Bissau	2.74	1.48	4.22	2.96	1.26	29.86
Liberia	12.50	9.80	22.30	19.60	2.70	12.11
Mauritania	2.78	0.06	2.84	0.12	2.72	95.77
Nigeria	83.00	448.00	531.00	166.00	365.00	68.74
Sierra Leone	53.52	—	53.52	—	53.52	100.00
TOTAL	541.63	574.74	1,116.37	418.60	697.77	62.50

Source: Direction of Trade Statistics Year Book, IMF 1981

¹ Excludes intra UMOA-Mali trade.

Table 3

**PERFORMANCE OF THE WEST AFRICAN CLEARING HOUSE
(TRADE INCLUSIVE OF OIL)**

Calendar Year Million WAUA (= SDR)

	1976	1977	1978	1979	1980
1. Exports (FOB)	251.29	307.57	286.24	340.71	438.01
2. Imports (CIF)	222.77	342.01	278.88	323.53	412.78
3. Total Intra-regional Trade (1+2)	474.06	649.58	565.13	564.24	850.79
4. Compensable trade	225.89	281.21	247.50	272.86	319.78
5. % Compensable trade (4÷3)	47.56	43.29	43.80	41.08	37.58
6. Total transactions channelled through WACH	18.40 ¹	45.20	52.00	72.82	162.69
7. Of which trade transactions channelled	10.90 ¹	35.00	35.70	45.52	50.42
8. Transactions cleared	4.27	13.09	14.15	18.04	23.70
9. Transactions cleared as % of total transactions (8÷6)	23.21 ¹	28.96	27.21	24.77	14.57
10. Trade transactions as % of total transactions channelled (7÷6)	59.24	77.43	68.65	62.51	30.99
11. Trade channelled as % of total intra-regional trade (7÷3)		5.39	6.32	6.85	5.93
12. Trade channelled as % of compensable trade (7÷4)		12.45	14.42	16.68	15.77

¹Covers only last 6 months of 1976

Source: Direction of Trade Statistics Year Book, IMF, 1981.