Economic and Financial Review

Volume 27 | Number 2 Article 10

6-1989

Towards a Single Monetary Zone in the ECOWAS Sub-Region: A Progress Report

S. E. Omoruyi
Central Bank of Nigeria

TOWARDS A SINGLE MONETARY ZONE IN THE ECOWAS SUB-REGION: A PROGRESS REPORT

Genesis

The call for a common currency for the West African sub-region has been considered generally as a veritable vehicle for achieving the primary objective of establishing exchange arrangements for free intra-regional payments. Such arrangements are deemed necessary to promote faster growth of intra-regional trade, and thereby foster economic development in the ECOWAS sub-region. Pursuant to this objective, the Authority of the Heads of State and Government of ECOWAS took a decision that studies be commissioned on the possibility of creating a single monetary zone in ECOWAS sub-region. Following that decision, the Committee of Governors of Central Banks of ECOWAS at its meeting in Dakar in September 1983, set up a Study Group under the auspices of the ECOWAS Secretariat.

The final report of the Study Group which was submitted to the Committee of Governors at its meeting in Nouakchott, Mauritania, in April 1987 proposed a monetary zone of the West African Monetary Union (WAMU) type for ECOWAS. It proposed a transitional period of five years (1988–1992) before the single ECOWAS Monetary zone could be created. In that period, some non-member countries of the L'Union Monetaire Ouest Africaine (UMOA), including Nigeria are required to adopt specific corrective policy measures designed to remove sources of disharmony arising particularly from exchange rate and monetary and fiscal policies of the government. The implementation of the adjustment measures by the non-members of UMOA is expected to achieve a harmonization of their policies with those that obtain among the seven member French-speaking countries of the UMOA.

The monetary zone envisaged is based on the common currency model with the following characteristics:

(i) a common central bank;
(ii) a common convertible currency to replace existing national currencies;
(iii) pooled external reserves;
(iv) the centralisation of short-term domestic and external liabilities of national central banks in the common central bank;
(v) the re-designation of existing national central banks, and
(vi) a convertibility guarantee agreement with the issuer of a major international currency in order to ensure stability and international confidence in the new common currency.

ECOWAS Monetary Cooperation Programme

At the Nouakchott meeting, the Committee of Governors accepted the report and adopted a phased approach to ECOWAS Monetary Cooperation. The phased approach is the gradualist one reflecting the time profile of objectives to be pursued. The pursuant of the *short-term objective* will be directed towards improvement and strengthening of the West African Clearing House (WACH) mechanism to facilitate increased intra-regional trade and payments transactions through greater use of national currencies. In the *medium-term,* efforts will be made towards the achievement of limited convertibility,[1] while the creation of a single monetary zone with a common currency is the *long-term objective.*

The proposed ECOWAS Monetary Cooperation Programme was adopted by the Authority of the Heads of State and Government at its Tenth Ordinary Session held at Abuja from July 7–9, 1987. It decided, however, that the creation of a single monetary zone should be on a gradual and pragmatic basis.

Under the Programme, a provision was made for an interim Coordinating Committee comprising representatives of all the central banks, ministries of finance and the executive secretariat. The Committee is *inter alia,* to undertake the necessary follow-up action on details of Programme of implementation. The Committee held its inaugural meeting in Lome, Togo, in February 23–26, 1988. A second meeting of the Committee was held in Lagos in February this year.

Progress and Problems

Progress

Considerable strides have been taken by member states of ECOWAS in the bid to remove some of the disharmonies, especially with regard to exchange rates and intra-regional trade. This has been made possible through the aegis of the Structural Adjustment Programmes currently being implemented by most member states of ECOWAS. Most of the initial exchange rate adjustments recommended under the ECOWAS Monetary Cooperation Programme have since been met under the floating exchange rates arrangements adopted by various countries of ECOWAS[2]. The exchange rate disharmonies in form of high degrees of overvaluation that featured in ECOWAS currencies other than the CFA franc, prior to the adoption of the Monetary Cooperation Programme in 1987, have largely been removed.

In the area of trade liberalisation, however, not much progress has been made. But successes have been achieved regarding the harmonization of CEAO and ECOWAS code, nomenclature, ECOWAS brown card and tariffs. Moreover, the Council of Ministers of ECOWAS, at its meeting held

[1] The concept of limited convertibility of ECOWAS currencies was defined by UNCTAD as "a set of co-ordinated national exchange arrangements undertaken by those ECOWAS countries to provide for a programme of faster liberalisation for inter-regional payments than in respect of payments to the rest of the world". For an initial period, preferential liberalisation of inter-regional payments does not necessarily need to cover all intra-ECOWAS transactions but may be restricted to intra-community trade which is eligible for preferential treatment on the basis of the approved ECOWAS trade liberalisation programme.

[2] In the Study Group Phase II report that formed the basis for the ECOWAS Monetary Cooperation Programme, the initial exchange rate adjustments recommended were as follows: Nigeria, Ghana, Sierra Leone, and Mauritania were expected to devalue by 74.0, 61.3, 51.7 and 21.6 per cent, respectively. The Gambia Dalasi was to be revalued by 59.2 per cent.

in Banjul, the Gambia from December 1–6, 1988 adopted the provisional budget of UA1,303 (US$1,738,648.0) for compensation of loss of revenue to be suffered by member states upon implementation of the intra-community trade liberalisation scheme in 1990. A list of 25 firms and industrial products has thus far been approved to benefit from the ECOWAS Trade Liberalisation scheme. These products were selected from accross the sub-region as having satisfied the ECOWAS rules of origin listed as follows:

(i) minimum of 40 per cent shareholding by the indigenes of the originating country;
(ii) minimum of 35 per cent local value added; and
(iii) minimum of 60 per cent local raw materials inputs.

These conditions must be satisfied collectively and simultaneously. It may be interesting to note that the selected Nigerian industrial products include billets, laminated steel, tiles, biscuits, beer and stout[3]. It should also be noted that trade in unprocessed products and in traditional handicrafts already exists under approved ECOWAS Liberalization Programme.

Problems

It will be recalled that a multilateral institutional arrangement established for the purpose of achieving limited convertibility of ECOWAS currencies is the WACH. To give practical content to this objective, the WACH works to facilitate, among other things, increased use of national currencies to settle intra-ECOWAS transactions and promote trade. However, most of the problems impeding cooperation efforts, reside here.

Regrettably, transactions that go through the clearing mechanism have been declining and the levels of compensable trade have also been quite low, over the years. The low levels of compensation mean that exports to member states do not compensate their imports and vice-versa, so that less and less use is made of national currencies to settle intra-ECOWAS trade as settlement of the trade imbalance has had to be made in convertible non-regional currencies.

While less than 5 per cent of the total international trade of the sub-region is channelled through the WACH, the imbalance in the intra-sub-regional commercial and financial transactions worsened as transactions between member countries are becoming less and less compensating. Other problems have been the existence of stringent exchange control measures in some member countries, and instability of members' exchange rates which has created a disincentive for exporters to invoice their products in their local currencies whose values are falling steeply in terms of major world currencies. Problems of transportation and communication loom large, coupled with large-scale ignorance of the role and functions of WACH among groups especially bankers.

Of importance has been the problem of inter-governmental organisations such as the CEAO, the Mano River Union comprising Liberia, Sierra Leone and Guinea and the Free Trade Area made up of Cape Verde and Guinea-Bissau. Contradiction in the Treaty of the different groups with those of ECOWAS have tended to retard progress in the promotion of sub-regional integration. For example, the CEAO has no requirements on the rules of origin for classification of industrial products under the Trade Liberalisation Programme but ECOWAS do have. The Mano River Union do not insist on all ECOWAS rules of origin.

Other Unresolved Issues

The narrative on the sub-regional efforts made so far towards achieving a monetary zone with a common new currency after the five-year transitional period, 1988–1992, will be incomplete if it is silent on at least two unanswered questions. These relate to the convertibility guarantee for the common currency and the pooling of foreign exchange reserves of member states in the common central bank. Agreement has not been reached with any country or group of countries on convertibility guarantee. The report of the Study Group had suggested that European Economic Community (EEC) could be contacted but this does not seem to have been done. The issue of pooling of external reserves is also problematic. In this case, the exact modalities for the management and utilisation of the pooled reserves are yet to be agreed upon. It is to be hoped, nonetheless, that these issues will be pursued by the Coordinating and Implementation Committee of ECOWAS Monetary Cooperation Programme during the five-year transitional period.

S. E. Omoruyi
Chief Research Officer
Research Department

[3] See Appendix for selected products of other ECOWAS countries.