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Study on Tracking Progress on Macro-economic Policy and Institutional Convergence in West Africa

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Table of contents

List of tables

List of charts

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Acronyms and abbreviations

AFRIPANET : Africa Investment Promotion Agency Network

ARC : ECOWAS Regional Authority

ERERA : ECOWAS Regional Electricity Regulatory Authority

ASEAN : Association of South-East Asian Nations

BCEAO : Central Bank of West African States

BRICS : Brazil, Russia, India, China and South Africa

CAP : Common Agricultural Policy

CEMAC : Economic and Monetary Community of Central Africa

CEP : Common Energy Policy

CET : Common External Tariff

CILSS : Permanent Interstates Committee for Drought Control in the Sahel

COMESA : Common Market for Eastern and Southern Africa

EAC : East African Community

ECA : Economic Commission for Africa

ECCAS : Economic Community of Central African States

ECOAGRIS : ECOWAS Regional Agricultural Information System

ECOWAP : ECOWAS Agricultural Policy

ECOWAS : Economic Community of West African States

EDF : Energy Development Fund

EEC : European Economic Community

EU : European Union

FDI : Foreign Direct Investment

FERDI : *Fondation pour les Etudes et Recherches sur le Développement International* (Foundation for studies and research on international development)

FTA : Free Trade Area

GDP : Gross Domestic Product

GNP : Gross National Product

IMF : International Monetary Fund

ISRT : Inter-State Road Transit

MDGs : Millennium Development Goals

NAFTA : North American Free Trade Agreement

OMVG : *Organisation de Mise en Valeur du Fleuve Gambia* (Gambia River Development Organisation)

OMVS : *Organisation de Mise en Valeur du Fleuve Sénégal* (Senegal River Development Organisation)

OPA : Observatory of Abnormal Pratices

PCSCS : Convergence, Stability, Growth and Solidarity Pact

RECs : Regional Economic Communities

ECOWADF : Regional Fund for Agricultural Development

RPFS : (Special) Regional Programme for Food Security

SADC : Southern African Development Community

TLS : Trade Liberalisation Scheme

UEMOA/WAEMU : *Union Economique et Monétaire Ouest-Africaine*/West African Economic and Monetary Union

UNCTAD : United Nations Conference on Trade and Development

WACIP : West African Common Industrial Policy

WAHO : West African Health Organization

WAMA : West African Monetary Agency

WAMI : West African Monetary Institute

WAMZ : West Africa Monetary Zone

WAPP : West African Power Pool

WDI : World Development Indicators

Preface

The United Nations Economic Commission for Africa (ECA) performs a dual role as a regional agency of the United Nations (UN) and a part of the regional institutional landscape in Africa. The ECA mandate is to promote the economic and social development of its member States, foster regional integration and promote international cooperation for the development of Africa. In addition, the ECA is involved in the mobilization of resources to meet the priorities of Africa.

In order to enhance its impact, the ECA pays particular attention to the collection of up-to-date regional statistics and provides technical advisory services to African governments and to intergovernmental organizations and institutions. Besides, it formulates and promotes development aid programs and projects for the member States and their intergovernmental organizations and institutions and acts as an implementing agency for relevant operational projects.

In order to be closer to its customers, the ECA has five sub-regional offices (SROs) that play a major role in this ambitious process in view of their proximity to the member States and the Regional Economic Commissions (RECs). Thus, their mandate has been strengthened to play the role of ‘‘sub-regional data centres’’ in addition to the original mandate of supporting sub-regional initiatives within the framework of development.

In the sub-region of West Africa, the SRO covers 15 countries, namely: Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea-Conakry, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. It works in cooperation with the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (UEMOA), the Mano River Union (MRU) and other intergovernmental organizations in West Africa.

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Executive summary

The overall objective of the study is to contribute to the acceleration of the integration process and to the socioeconomic development of the West African sub-region, by means of an analysis of the progress made in terms of macroeconomic policy convergence.

Theoretical foundations of integration and convergence

The benefits derived from economic integration

One of the most compelling justifications for regional integration in the continent is a key desire for greater economic independence and development. Indeed, West African countries can derive dynamic gains from regional integration in several domains : (i) enlarged regional markets which offer incentives for FDIs, relocations, as well as private cross-border investments ; (ii) regional integration is likely to improve efficiency as a result of competitive pressures among rival firms; (iii) as the composition of production is diversified from primary products, African countries' long dependence on developed market economies for manufactures should decline ; (iv) mechanisms to ensure compliance with the commitments made for structural reforms; (v) strengthening of economic bargaining power on the international scene; (vi) cooperation and pooling of resources (waterways, roads and railways, power grids) help to promote regional public goods and to curb regional public troubles (pollution or transport shortage, for example) (vii) reducing the risk of conflict, by building trust and facilitating cooperation on security issues; (viii) accelerating growth and economic development.

In the same manner as for trade, money and finance equally constitute essential components of the sub-regional integration process: (i) financial integration can help reduce costs and risks for banks and financial institutions while guarding against crises; (ii) monetary integration ultimately leads to a single currency. It highly contributes to financial stability, thanks to enhanced financial cooperation between member countries.

<u>Justification, objectives and functioning of the convergence mechanism in ECOWAS</u>

Macroeconomic convergence is a fundamental aspect of the ECOWAS Monetary Cooperation Programme. In addition to facilitating the coordination of monetary policies, it provides an opportunity to ensure macroeconomic stability, thus guaranteeing the purchasing power of the future single currency. Consequently, in accordance with the need for convergence of the economies of the sub-region, some indicators were adopted, in 1999, which required Member States to comply with the selected criteria in order to resorb their fiscal, monetary and exchange rate imbalances and to create an ideal environment for a successful monetary integration. They should also and above all ensure the convergence of their economies: this concerns the process of macroeconomic convergence. This process consists in wiping out the economic and monetary disparities so as to achieve a homogeneous development of the Member States. In other words, it entails promoting similarity in the functioning of the economies (**nominal convergence**) by means of the monetary stability policy.

Growth and **real convergence** – which bring closer the productive structures and the levels of the economic and social life (per capita GDP) of the populations – are assumed, in the medium term, to result from compliance with monetary stability. Real convergence can be absolute or conditional. In order to achieve this goal, **convergence criteria** were imposed on Member States.

The States should equally aim to achieve **institutional convergence**, by harmonizing their policies and their legal and legislative frameworks relating to public finance, as well as their public accounting procedures or their statistical methods.

In June 2012, in Yamoussoukro (Ivory Coast), the ECOWAS Heads of State adopted a Supplementary Act (A/SA.4/06/12) on the **Convergence and Macroeconomic Stability Pact among the ECOWAS Member States**.

The Pact reformulated certain convergence criteria and introduced a new criterion (on public debt). It sets and marks the formal commitment made by ECOWAS Member States to establish the single currency union of ECOWAS. According to the provisions of the Supplementary Act (Article 3), it aims to: (i) ensure the coordination of economic policies; (ii) strengthen the convergence of the economies of Member States; (iii) foster macroeconomic stability and; (iv) strengthen monetary cooperation.

Performances of West African countries in terms of macroeconomic policy and of convergence

Trends in the economic situation

The economic situation of ECOWAS recorded dynamic growth as from 2005, with an average annual rate of over 5 %. This good performance ranked the subregion one of the fastest growing areas in the world. However, this achievement conceals many structural weaknesses, notably an excessive dependence on raw materials for export and on climatic conditions. In addition, the security threat, resulting from serious governance shortcomings, is now a major challenge for the sub-region. It strongly influences its economic and social prospects.

Recent Trends in West African trade

ECOWAS countries have similar trade structures – high proportion of primary products, semi-processed and very competitive goods. Almost all exports are primarily intended for markets in Europe, Asia and North America. Their imports – manufactured goods – are mainly from the same three continents. Intra-ECOWAS trade is therefore particularly marked by the non-complementarity of the domestic products of member countries. In addition to the deficiencies noted in infrastructure, this context readily explains the low level of intra-community trade, resulting in inefficient decompartmentalized markets.

Progress made in terms of respecting the convergence criteria within ECOWAS

Despite the good will expressed at Summits and ministerial conferences, as well as the achievement of economic growth rates exceeding 5 % in the ECOWAS region, during the period between 2005 and 2012, little progress has been observed in terms of compliance with convergence criteria. Thus, the meeting of the ECOWAS

Technical Committee on Macroeconomic Policy, held in Abidjan in 2013, reported that compliance by States with the criteria declined in 2012, with the exception of criteria relating to the wage bill/real interest rate ratio. Overall, then, **results in macroeconomic convergence within the sub-region are unsatisfactory**.

Progress in terms of institutional convergence within ECOWAS

The Report of the Twenty-Sixth Ordinary Meeting of the ECOWAS Committee for Economic and Monetary Affairs and the WAMA Operations and Administration Committee (held in Banjul, Gambia, on 10 and 11 January 2014) stated, with regard to policy harmonization, that significant progress has been observed in the context of the implementation of harmonization programmes set out in the roadmap.

Critical assessment of the sub-regional integration process

Analysis of the relevance of the macroeconomic convergence principle

Macroeconomic convergence appears to be inevitable in preparing for broader regional and monetary integration. It is relevant for several reasons :

i) inflationary pressures caused by unsustainable fiscal deficits and by monetary expansion can lead to unbearable current account deficits, which in turn may ultimately compromise trade liberalization and hinder regional exchange rate stability;

ii) macroeconomic instability, which results in an unhealthy financial sector and difficulties in foreign debt, weakens capacity to face structural challenges and to promote growth;

iii) a country with a very high current account deficit will require a greater balancing effort from the other member countries – because of the principle of solidarity – to maintain stable regional macroeconomic aggregates, in particular, the exchange rate. This may lead to protests against the country (or countries) with imbalance(s), and thus to political disagreements.

<u>Criticism of the convergence criteria</u>

The relevance of compliance with the criteria is challenged on many levels. The public deficit standard is particularly controversial. An absolute limit, namely a positive basic fiscal balance for UEMOA, cannot, by definition, take into account cyclical fluctuations which specifically affect the budget balance through automatic stabilizers. Strict adherence to this criterion leads, in times of recession, the national authorities to implement restrictive fiscal policies, which reinforces the cycle. ECOWAS, by choosing a less restrictive budget deficit ceiling has partially integrated this issue. It is necessary, in addition, to take into account the structure of the deficit itself: is the deficit caused by an increase in operating expenditures or in capital spending?

Moreover, the dichotomy between growth and inflation has been discussed for long in economic literature. The principle that strong and sustainable growth is unattainable without a relatively high inflation seems to be widespread, particularly among neo-Keynesians. Thus, fixing the maximum ceiling for inflation (3 % for UEMOA countries) could limit member country growth performances. In countries like Ghana, Liberia and Sierra Leone, the good growth trends observed during the last decade may be stopped as a result of strict compliance with the inflation constraint. That is why ECOWAS adopted, with respect to the inflation target, a rate of 10 % at the end of the adjustment period for the Second Monetary Zone countries, and 5 % for ECOWAS as a whole, when the two areas will be merged.

<u>Difficulties posed by divergence in convergence criteria of ECOWAS, WAMZ and UEMOA</u>

Compliance with ECOWAS convergence criteria has become more difficult for member countries because of differences in the benchmarks selected by the various institutions (ECOWAS, UEMOA and WAMZ). Thus: (i) the indicators selected as convergence criteria are not always the same for the three systems of convergence; (ii) certain indicators selected in common in the three systems as convergence criteria have been classified differently as primary or secondary criteria, do not always have the same values, and have different convergence horizons.

Thus, WAMZ selected a target of 10 % maximum inflation rate, while ECOWAS chose 5 % and UEMOA chose 3 %. Since the initial objective was to establish the WAMZ prior to the ECOWAS single currency, member countries have tended to focus more on the 10 % than the 5 % target. Therefore, almost all of them ignore the 5 % target set by ECOWAS, in contrast to UEMOA member countries.

The converse situation is observed with regard to the TFR/GDP *ratio*, with a target of at least 20 % for ECOWAS and WAMZ and only 17 % for WAEMU. However, only Cape Verde, Liberia, Senegal and Nigeria are able to meet the target 20 % set by ECOWAS, which indicates structural difficulties for most countries, whether or not they are member of WAMZ or UEMOA.

Limitations of comparability between ECOWAS countries

Given the lack of harmonization of policies implemented and of the various institutional, accounting and statistical frameworks, comparison of compliance with convergence criteria has limitations.

Indeed, if at the level of UEMOA, the convergence framework is accompanied by measures to harmonize the legal, accounting and statistical framework of public finances and taxation, the same cannot be said for WAMZ countries. Efforts to harmonize national accounts must also be made by ECOWAS to permit greater comparability of macroeconomic aggregates, as is the case in UEMOA countries. That is the very essence of the programmes in roadmap for a single currency.

Policy recommendations to foster sub-regional integration

Recommendations to Boost the Volume of Intra-ECOWAS Trade

The conclusion relating to studies on intra-ECOWAS trade made it possible to highlight the factors accounting for the weakness of sub-regional trade integration. They are basically the lack of quality infrastructure – road and rail – and low level of industrialization. The growth of intra-ECOWAS trade necessarily requires industrial development – which is synonymous with diversification and complementarity of domestic production – as well as the realization of major community infrastructure projects.

It is therefore important to increase community funds intended for financing the industrial and agricultural sectors, which are means of developing trade and of economic growth.

Recommendations for Effective Implementation of Macroeconomic Policies and Convergence

For discipline to be instilled among ECOWAS Member States, a system of incentives and disincentives should be instituted. One possible incentive would be to grant financing favours to prudent States. Specifically, the aim is to reward prudent countries by granting them community financing facilities. Disincentives will include inflicting financial sanctions to deter countries lagging behind in terms of compliance with the convergence criteria. Such a system of incentives – to enable the proper application of the convergence criteria – must be defined jointly by the Member States.

States could also follow the example of Nigeria (with its "Responsibility Act") and have their parliaments vote in binding provisions such as the irrevocable fixing of a maximum level of budget deficit.

Moreover, ECOWAS should encourage Member States to use ***Public-Private Partnerships*** to reduce the burden on public spending and thus achieve the objectives in terms of public debt and budget deficit.

Extensive studies should also be conducted in order to understand, beyond simple observation, why Member States face structural difficulties in meeting certain criteria such as the budget deficit, inflation (for WAMZ countries) or the tax ratio. It is also essential to ***unify the convergence criteria,*** at the latest by the end of the first phase of convergence scheduled for December 2016, in order to better prepare the entry into force of the ECOWAS single currency planned in 2020. Moreover, it would be necessary to harmonise tax rates and social protection rules to avoid any harmful fiscal and social disorder in the future ECOWAS monetary union.

In any case, ECOWAS must clearly initiate, very quickly, an internal debate, at the highest level of its decision-making bodies, in order to clarify its strategic choices, and to decide to maintain as such the levels selected for the criteria, by harmonizing them between ECOWAS, WAMZ and UEMOA, or to adapt them to the real capacities and needs of States, by choosing to loosen some of them like the level of inflation, tax ratio, budget deficit or foreign exchange reserves. The survival of the ECOWAS project on a single monetary zone is at stake.

To this end, the holding, on 20 and 21 February 2014, of the inaugural meeting of the Presidential Task Force (set up by ECOWAS, to assist the Presidents of Niger and Ghana to accelerate the Monetary Cooperation Programme) helped to clearly state the issue and outline the following major recommendations for the Heads of State:

- reconsider the idea of a two-staged monetary union and aim directly at establishing the ECOWAS monetary zone in 2020, bypassing the creation of WAMZ;
- start the currency area in 2020 with the ECOWAS member countries that meet all four primary convergence criteria before 2020, while the other countries join as and when they meet all the primary criteria;
- streamline the convergence criteria, so as to reduce or simplify them.

Introduction

In this era of globalization, regional integration appears inevitable in order to expand economic opportunities in Africa, since larger markets allow for better use of economies of scale. In addition, the mobility of factors across borders, as well as the coordination and harmonization of monetary and fiscal policies, all facilitate faster economic growth and higher levels of well-being for the participating countries. It is for this purpose that ECOWAS was established in West Africa. It is the main regional economic community in West Africa, which now brings together all 15 countries of the sub-region.

For several years now, ECOWAS member countries have been implementing macroeconomic policies that have been coupled with convergence criteria in a bid to create a common currency in the sub-region. This effort relies on two sub-entities. The process of convergence was strengthened by UEMOA which, following the devaluation of the CFA franc in 1994 and in a bid to better control its exchange rate, instituted it in its eight member countries. Multilateral surveillance is one of the UEMOA mechanisms and it is monitored by the Commission, which submits six-monthly reports to it. The statistical data used in this context are those provided by National Economic Policy Committees, in compliance with the Directive No. 01/96/CM on the implementation of the multilateral surveillance of macroeconomic policies in the UEMOA member States.

Thereafter, non-member countries of UEMOA, excluding Cape Verde, joined this process with a view to creating the West African Monetary Zone (WAMZ), whose monitoring mechanism is ensured by the West African Monetary Institute (WAMI). These countries have adopted the ECOWAS convergence criteria as defined by the Conference of Heads of State and Government by Decision A/DEC.7/12/99.

Lastly, the West African Monetary Agency (WAMA) coordinates the multilateral surveillance within the fifteen countries of ECOWAS, thus taking into account the process conducted by UEMOA. Consequently, it produces six-monthly reports which describe the implementation of the ECOWAS Monetary Cooperation Programme (EMCP). The latter was adopted in Abuja in 1987 by the Conference of Heads of State and Government of ECOWAS member countries, with the aim of establishing a harmonized monetary system and common management institutions.

The short-term goal, as described in WAMA reports, is the harmonization of rules governing economic and financial management, in particular: (i) harmonization of regulations, exchange control and banking supervision laws; (ii) liberalization of the monetary and financial market; (iii) elaboration of a strong pact on macroeconomic management and strengthening of structural policies at national and regional levels; (iv) compliance with the macroeconomic convergence criteria, harmonization of economic and monetary statistics as well as assessment of the quality of convergence; (v) completion of the process of establishing a market within the community (including trade liberalization, elimination of tariff and non-tariff barriers); (vi) liberalization of the labour market; (vii) development of an exchange rate mechanism and its adoption by all ECOWAS Member States; (viii) constant efforts to ensure the adoption of the same management rules and monetary policy instruments; (ix) assessment of the situation of the financial system; (x) popularization of the use of the West African Unit of Account (WAUA) and revitalization of the WAMA compensation scheme, including oil transactions; (xi) establishment of a Community Monetary Institution (CMI).

According to the Agency, the programme also aims to achieve convertibility of the regional currencies in the medium term through the use, freely and at market rates, of national currencies in trade transactions within the region; and the creation of a single currency in the zone by means of a single convertible currency, managed by a common Central Bank. The ECOWAS single currency programme is a set of activities to be undertaken, within a certain timeline, before the introduction of a second regional currency in 2015 for the second monetary zone and the creation of a common currency for all fifteen (15) Member States of ECOWAS in 2020.

In May 2009, a road map for the monetary cooperation programme was adopted by the Convergence Council of the Economic Community of West African States (ECOWAS). It reiterates the importance of macroeconomic convergence and the harmonization of structural policies to ensure macroeconomic stability, before the launch of the single currency in West Africa. Lastly, in October 2013 in Dakar, the Heads of State and Government renewed their commitment to the schedule agreed on by entrusting the case to the Presidents of Niger and Ghana. That is the background to this study initiated by the Sub-Regional Office for West Africa of the Economic Commission for Africa (ECA/SRO-WA). The overall objective of the study is to contribute to the acceleration of the integration process and to the socioeconomic development of the West African sub-region.

This study is in three parts: (i) part one analyses the theory of integration and convergence, as well as the rationale in the West African region; (ii) part two presents the actual status of the progress made in terms of macroeconomic policy convergence in the sub-region; and (iii) in part three, the study makes a critical assessment of the implementation of macroeconomic policies and of macroeconomic convergence, as well as some recommendations.

Chapter A.
Theoretical foundations of economic integration, monetary integration and convergence

In a context of interdependence and extroverted national economies, integration remains a powerful tool for economic development. The acceleration of the economic globalization process in Marrakech (Morocco) in 1994, with the creation of the WTO, further justifies the enhancement of economic integration in West Africa. Indeed, left to themselves, none of these countries in the sub-region would be able to make an impact on global markets. This chapter comprises three sections: the first, which deals with trade and economic integration in its various aspects; the second, which focuses on monetary integration; and the third, which discusses macroeconomic convergence.

Section I. Economic and trade integration

I.1. Overview of economic integration

One of the most compelling justifications for regional integration in the continent is a key desire for greater economic independence and development. The classical theory[1] of regional integration points out that integration can take many different forms, depending on the degree of political and economic commitment of the member countries. The arrangements, which are to be made, can range from a simple operation consisting of a reduction of the customs duties to a more ambitious form of economic integration, with provisions for a common monetary and fiscal policy.

Hungarian economist, B. Balassa (1961), identifies five different meanings or degrees, ranging from the lowest to the highest: free trade area, customs union, common market, economic union, total economic integration. This last degree or final phase of the process requires the creation of a common entity with decision-making powers in several domains, particularly in the economic, political and social domains, and in compliance with modalities agreed upon beforehand. The theory thus lays out a menu of options on integration, in which regional integration deepens as restrictions on trade and investment diminish (see Table 1 p. 43).

[1] See, for example, Balassa (1962, 1965), Meade (1955), Baldwin and Venables (1995) and Lipsey (1957).

The various stages of integration

Bela Balassa (1961), in a bid to better characterize the levels of economic integration, provided the following classification for the various forms of economic integration.

Free trade area:

As part of the procedure for establishing a free trade area (FTA), the States involved completely remove trade barriers within the space in which the integration process is occurring and quantitative restrictions as well. Each country retains control of its trade policy, especially with regard to setting tariffs and ensuring control over its own protection. The FTA is materialized by a generalized preferential tariff between States parties with defined rules of origin, conditions for setting up a compensation fund and licensing procedures. Sectoral policies which seek to facilitate the movement of goods are agreed upon to serve as accompanying measures.

Customs union:

In addition to free trade between economic agents, the customs union is characterized not only by the abolition of customs duties and quantitative restrictions on the movement of goods originating within the union, but also by the fact that countries adopt a common trade policy through fixing a Common External Tariff (CET) with the rest of the world and, generally, by adopting a customs code for the community. Many other forms of arrangement are possible (free circulation, establishment of internal taxes such as the VAT

Common market:

The common market consists in deregulating all markets. In addition to the single market for products, as is the case for the free trade area and the customs union, deregulation here concerns the labour and capital markets, that is, ensuring free movement of natural persons and of capital. At this level of integration, there is a need for some degree of harmonization of sectoral policies and ensuring a competitive environment.

Economic union:

The economic union combines the removal of obstacles to the free movement of goods and factors of production with achieving some degree of harmonization of national policies in a bid to abolish any discrimination due to disparities between these policies. It therefore entails a common market coupled with harmonization of economic policies.

Economic and monetary union:

The economic and monetary union represents the final stage in economic integration. It comprises, other than the implementation of common policies, the creation of a zone of fixed exchange rates between the partners and, possibly, the creation of a common currency.

Total economic integration is therefore the endpoint of a process for the unification of economic policies between various States, which necessarily entails total removal of barriers to cross-border economic activities involving trade, movement of labour and services and capital flows.

Table 1.
Characteristics of regional integration

Type of arrange-ment	**Free trade among members**	**Common Trade policy**	**Free factor mobility**	**Common monetary and fiscal policies**	**One govern-ment**
Preferential trade area	No	No	No	No	No
Free trade area	**Yes**	No	No	No	No
Customs union	**Yes**	**Yes**	No	No	No
Common market	**Yes**	**Yes**	**Yes**	No	No
Economic union	**Yes**	**Yes**	**Yes**	**Yes**	No
Political union	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

Source: *ECA 2004 and El-Agraa 1997*

The reasons behind the establishment of large regional blocs – and which therefore explain integration – are essentially economic in nature. Since the time of pioneer authors, like A. Smith (1776) and D. Ricardo (1748), international trade has been considered as a source of specialization for countries and as a means of increasing the sizes of their markets. In that regard, contemporary authors, like P. Krugman (1979), using theoretical models of monopolistic competition, have shown that consumers benefit from a wider variety of goods and services at lower prices as a result of international trade. However, regional integration is an effective means of substantially increasing trade among a group of countries. For a small country, regional integration offers access to the international market, by achieving a critical size, and giving it preferential trade opportunities in the major member countries. Conversely, integration enables the major countries to establish preferential markets within the integrated regional space.

The renewed enthusiasm caused by most of the regional trade agreements concluded in Africa stems from the underlying principles of the traditional trade theory, which postulates that trade and investment between two or more countries generally has positive welfare effects for the countries concerned and leads to economic growth and poverty reduction, as articulated in the fourth edition of Assessing Regional Integration in Africa (ECA, 2010).

The theory on Free Trade Areas (FTAs) is deeply rooted in the theory on customs unions, and can be defined as a process to reduce or abolish tariff and non-tariff restrictions to trade in goods and services among a group of countries in a given geographical area.

The theoretical literature on the issue shows a wide consensus on the fact that the most important benefits derived from integration result from the expected gains from an expanded market. Indeed, the expansion of the market is in itself a factor of competitiveness, thus for increase in international trade. It produces two main effects (A. Young, 1928): (i) an increase in productivity gains associated with the growing mechanization that accompanies the increase in production and with the phenomenon of learning (*learning by doing*); (ii) a differentiation and increasing specialization of the sectors.

In case of free and unrestricted movement of goods and persons, investment is expected to more readily satisfy market demand and supply in the FTA, which leads to a more efficient resource allocation. But to reap the potential benefits of integration, Member States should meet certain conditions: a stable and predictable business environment, elimination of restrictions on competition between firms within the region, and implementation of trade facilitation measures which reduce barriers to trade, notably non-tariff barriers (NTBs). In addition, incentives for investors would include measures to protect foreign direct investment (FDI), through broader property rights and special regional arbitration courts.

According to Velde and Meyn (2008), the benefits drawn from a successful integration can be considered as a "*cost of non-integration*" for regions which are yet to complete the integration process. A recent study by FERDI (2012)[2] has shown that *the gains expected from a*

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[2] *Fondation pour les Etudes et Recherches sur le Développement International (FERDI, 2012) : «Evaluation des gains attendus de l'intégration économique régionale dans les pays africains de la Zone franc »*

significant strengthening of regional integration in African countries are estimated at a minimum 2 – 3 per cent additional growth annually. This is what thus constitutes the cost of non-integration for the sub-regional economies, considering that the regional integration process is far from complete.

However, successful integration requires preconditions relating to the behaviour of Member States and to their relations. The current configuration of the global economy, which is characterized by the globalization of national economies, requires States to work together in a bid to ensure the effectiveness of their policies. Cooperation and policy coordination have therefore become inevitable for member countries.

Cooperation refers to joint action by member countries for the purpose of finding one or more solutions to an international problem. It often requires the establishment of specialized agencies for each type of problems. Economic policy coordination is justified by the need to avoid situations in which a policy which is implemented in one country is neutralized by another policy implemented in another member country of the customs union or common market.

Within the framework of an FTA, countries progressively abolish custom duties and quantitative restrictions so as to, in the long run, establish the free movement of products originating from the area, but each nation keeps its own trade policy vis-à-vis third countries. A customs union is characterized by a common trade policy (establishment of a common customs tariff or CET). Lastly, regarding the economic union, the harmonization and convergence of the economies of the member countries are indispensable for the expected benefits to prevail.

Indeed, the completion of an economic integration process would require the attainment of specific objectives in the following areas:

- integration of trade;
- monetary integration and unification of financial markets;
- coordination of macroeconomic and sectoral policies.

I.2. Static effects of trade integration: creation and diversion of trade

The process of regional integration – FTAs in particular – has posed serious analytical challenges to trade theorists because regional integration schemes conceptually combine elements of both free trade (within the union) and protectionism (against non-members). It is clear that, while the trade liberalization aspect of regional integration is consistent with the neoclassical perception of a welfare-enhancing trade policy regime, the discriminatory aspect of the arrangement is potentially detrimental to attaining both regional and global welfare.

In 1950, Viner highlighted the ambivalence of the static effects of free trade on welfare. To this end, he opposes the creation of trade – which are the gains in welfare resulting from free trade – to trade diversion – responsible for loss of welfare. Viner's reflections are later enriched by the works of authors such as W.M. Corden (1974), R. E. Baldwin (1985), H. Flam (1992) and J. Bhagwati (1988 and 1993).

According to the Viner model, the static effects of integration result from a one-time reallocation of factors of economic production and of natural resources and entail negative and positive impacts on welfare. The model provides a tool for analysing the effects of FTAs on welfare by introducing the concepts of trade creation and trade diversion. The extent to which changes in welfare occur greatly depends on the predominance of the one or other of these effects.

Trade creation refers to the increased level of trade resulting from the abolition of trade barriers within the FTA. Assumptions on trade creation concur on the fact that the pattern of trade heavily reflects the differences in comparative advantage among member countries. Trade is said to have been created when countries give up on the production of goods and services that they produce less efficiently in exchange for the same goods and services produced more efficiently by a partner country. Thus, regional welfare is enhanced when the changes introduced by the FTA produce a shift in consumption, such that higher-cost domestic products are replaced by lower-cost products from a partner country.

Robson (1984) states that trade flows are more likely to be created when the economic area of integration and the number of member countries are large, when tariff and non-tariff barriers (NTBs) have been reduced or eliminated as a result of the FTA, and when the economies of the integrated countries are competitive, with comparable levels of development and a complementary resource base. Hence, the **need for economic convergence** for countries which seek to form a single economic space.

The trade diversion effect, in contrast, is seen as a cost to the region and the world at large. Trade is said to have been diverted when the shift in consumption is more in favour of higher-cost products and service from the region than lower-cost products and services produced by countries outside the region. That is why trade diversion could produce an uncompetitive environment, inefficiency and loss of consumer surplus.

Although it is generally accepted as a theoretical fact that trade creation and trade diversion are potential outcomes of preferential trading systems and that they tend to move economic welfare in opposite directions (Viner

1950), the net effect of the two phenomena is an empirical issue.

Several studies have shown that the result of the formation of the customs union of the European Economic Community (EEC) is rather mixed. For Robson (1984), the creation of trade flows largely outweighs trade flows diversion, with respect to manufactured goods. It seems, he says, that the formation of the EEC has led to the creation of non-negligible external trade flows. He wrote, *"from these two points of view, it can be said that the creation of the EEC has had favourable effects on the efficiency of resource allocation on a global scale"*. However, Pomfret (1988) denies the existence of a lower index on the "creation of external trade flows".

Concerning agriculture, many authors believe that the EEC's Common Agricultural Policy (CAP) has created a significant trade diversion and substantial loss of revenue for agricultural exporting countries, because of the decline in world prices of the products covered by the CAP.

As for the effects on growth, Pomfret (1988) concluded, from an analysis of existing empirical studies, that the customs union did not yield additional economies of scale or efficiency gains. However, the ECC was found to have benefitted from an increase in FDIs and from improved terms of trade, and in both cases, it was more of redistribution than some net economic gain for the entire world.

For Balassa (1975), by taking into account the effects of agricultural products diversion, the economic gain for the ECC was less than 0.1 % of the GNP of the member countries. In contrast, N. Owen (1983), by integrating the economies of scale made by manufacturing industries and by using the partial equilibrium method, obtained a more satisfactory result for the EEC, with a gain of about 3 to 6 % of the GDP of the six original Member States.

Moreover, a study by the World Bank (1996), cited by P. Krugman (2003), has shown that the net effects of the South American FTA – the Mercosur – were negative, despite the tripling of the value of trade between the member countries – Argentina, Brazil, Uruguay and Paraguay. The constitution of this FTA created a situation of trade diversion, which is very detrimental to consumers in particular. For Africa and in particular for West Africa, static economic theory which focuses on trade diversion and its effects on welfare might not be relevant, since the integration objectives of the continent transcend narrow economic considerations. The integration approach applied by the continent has in fact strong justifications related to development, which are beyond the scope of conventional theoretical analysis in favour of its regional integration.

I.3. Dynamic effects of trade integration

Apart from these static effects, several authors have emphasized the dynamic effects of trade integration resulting from the productivity effects (Neary, 2001). The new theory thus highlights the long-term benefits of productivity on trade (Grossman and Helpman, 1991) that occur through imports and exports (Coe and Helpman, 1995; Coe, Helpman and Hoffmeister, 1997). Dynamic effects also occur through extra regional foreign direct investment (FDI) flows.

It is therefore in the long term that dynamic gains resulting from FTAs are achieved. These effects often result from economies of scale (due to an expanded market), efficiency gains (due to the competitive environment and transfer of technology), increased inward FDI flows, and removal of contingent protection and trade barriers.

The most significant economic gains can be realized from the decline in unit costs caused by economic cooperation and coordination of policies (De Melo, Panagariya and Rodrik, 1993), including those for region-wide transport and communications. For the ECC, Bayoumi and Eichengreen (1995) have shown that bilateral investment flows within the FTA recorded a very substantial increase.

Africa itself can derive dynamic gains from regional integration in four main domains:

- Enlarged regional markets which offer incentives for FDIs, relocations, as well as private cross-border investments. Appropriate trade and macro-economic regimes can encourage enterprises to set up optimum-sized industrial and service projects, which were formerly held back by the small size of national markets. Most African economies are too small to launch viable steel projects, for example, yet this industry's pivotal role in the industrialization of developing countries is widely recognized. The combination of a stable investment climate, development of transport and communications infrastructure, as well as sound regional economic policy could constitute a set of incentives for large investments in the manufacturing and service sectors, which require economies of scale.

- Regional integration is likely to improve efficiency as a result of competitive pressures among rival firms. Monopolies and oligopolistic market structures are major impediments to efficient production in most African countries. Inefficient national enterprises (including private firms which benefit from privileges granted by government) often reap excessive profits either because laws protect them or because industry offers no credible rivals. Adopting and enforcing regional competition rules throughout the free trade area (FTA) is likely to enhance (or spawn) the free competition needed for an efficient industrial structure.

- Potential effects of possible trade diversion from a regional FTA may lead to welfare improvements in that region. This is because an increase in the relative price of exportables can expand that sector, by stimulating further investment and thereby increasing output and employment.

- As the composition of production is diversified from primary products, African countries' long dependence on developed market economies for manufactures should decline. The existing structure characterized by commodity specialization in Africa has placed the region at a long-term disadvantage not only as concerns terms-of-trade losses but also in terms of positive image loss and of growth. One of the potential dynamic effects of FTAs in Africa is that they can foster a better environment for industrial diversification and regional complementarity than when each country goes its own way.

Steps to remove custom duties will secure gains in these four areas only if other policy measures accompany them, such as the reduction of non-tariff barriers stemming from weak infrastructure, of lengthy border procedures, of duplicated procedures and of corruption. Regional efforts aimed at upgrading infrastructure and reducing non-tariff barriers are therefore fundamental to successful integration.

The **ECA (2004)** cites other benefits of regional integration, which include:

- ***Mechanisms to ensure compliance with the commitments made***. Regional integration can thus give more credibility to the economic and political reforms initiated by Member States and ensure their continuity, as these mechanisms play a moderating role and provide a framework for the coordination of policies and regulations (Fernandez and Portes 1998; World Bank 2000);
- ***Strengthening of economic bargaining power*** on the international scene, especially for small countries, provided they negotiate as a group;
- ***Cooperation and pooling of resources*** (waterways, roads and railways, power grids) help to promote regional public goods and to curb regional public troubles (pollution or transport shortage, for example) ;
- ***Reducing the risk of conflict***, by building trust and facilitating cooperation on security issues;
- ***Accelerating growth and economic development***, under the combined effects of technological progress made possible by trade, stabilization of the global business environment (thanks notably to the establishment of macroeconomic convergence criteria and the modernization of legislative and regulatory frameworks).

I.4. Monetary and financial integration

The issue of monetary integration has gained increasing importance as a result of international relations and of the multiplicity of currencies and exchange rate regimes. These elements could constitute serious obstacles to trade. Therefore, in the same manner as for trade, harmonization and monetary integration constitute essential components of the sub-regional integration process.

According to the report of the Office (*Le point de l'intégration n°*7 of June 2000) monetary integration comprises six components:

- "Use of a common currency, or where several currencies exist, application of fixed, permanent and unchangeable exchange rates between the various currencies;
- A common monetary and fiscal policy aimed at regulating the creation of a very strong currency and at limiting public debt increases;
- Centralized management of the common currency reserve, the external debt and the exchange rate policy;
- Harmonization of domestic credit by setting credit ceilings: national monetary authorities reserve the right to allocate and distribute domestic credit among the various sectors;

- In case a single currency has been adopted, there is, at the regional level, a monetary authority or central bank with exclusive power to issue the single currency;
- A common development bank to finance national and sub-regional projects to facilitate the integration process and to reduce the economic disparities between member countries."

Financial integration can help reduce costs and risks for banks and financial institutions while guarding against crises (Ferroni, 2001). The integration of stock exchanges will certainly help to overcome liquidity shortfalls due to the small sizes of the economies, and thus increase intra-regional capital flows. However, it should be acknowledged that financial integration is an ambitious project for African regions owing to the fact that it requires substantial institutional and financial costs. According to Irving (2005), the financial integration process should be conducted at a certain rate and in a pragmatic manner. He supported his remarks by stating that national financial markets should be developed prior to being integrated.

Monetary integration ultimately leads to a single currency. It highly contributes to financial stability, thanks to enhanced financial cooperation between member countries. As a result, monetary integration guarantees free capital flows, and presents a certain advantages, such as:

- price stability;
- increased efficiency;
- reduction of transaction costs and risks;
- no need to hold reserves in separate central banks;
- stability of the exchange rate;
- reduction of interest rates; and,
- enhanced credibility for the monetary policy.

The Theory of Optimum Currency Areas developed by Mundell (1961), Mckinnon (1963), and Kenen (1969), and later enriched by other authors, foresees all these advantages. However, the lingering question concerns the nature of those countries that should form a monetary union. In this case, monetary zone viability is essentially based on a number of factors :

- price and wage flexibility;
- prior financial integration;
- factor market integration (labour, capital)
- integration of goods and services markets;
- coordination of national fiscal, monetary and exchange-rate policies;
- similar inflation rates;

- income correlation;
- prevalence of symmetrical shocks;
- existence of adjustment mechanisms to respond to asymmetrical shocks (which implies a certain degree of fiscal federalism).

If member countries of the monetary zone meet these criteria, it will be unnecessary to adjust the nominal exchange rate within the zone.

I.5. Coordination of sectoral policies

Using the game theory, economic analysis has shown that agents in a strategic interaction situation and who share the same objective may find it advantageous to coordinate their actions so as to obtain satisfactory and mutually beneficial results. Coordination is therefore a necessity for countries in the same integration area. In particular, special attention should be paid to cooperation in such areas as research and development (R&D), infrastructure, agriculture and food security, and health.

The coordination of R&D policies helps the private sector to acquire new capacities in order to adapt to the changes occurring in the regional and international economic environment. Community-level R&D thus creates scale effects which trigger increased competitiveness and innovation, and improvements in human capital. Enhancing cooperation in R&D may thus help in several areas, including the free movement of goods and persons, consumer protection, food security, health care provision and environmental protection.

Intra-regional infrastructure projects make it possible to benefit from economies of scale, and therefore, to reduce transportation costs (World Bank, 2008). The harmonisation of infrastructure policies can also increase investor and trading partner confidence. Moreover, countries can benefit from the best practices and avoid the overlapping of programmes. Over and above road and communication infrastructures, the focus should be on energy, especially expanding the regional electricity grid and ensuring optimal management of water resources.

Strengthening cooperation in the field of agriculture also offers an opportunity for West African countries to face food crises. It also helps to reduce the unjustified tax paid by the poorest categories of consumers. Indeed, a significant proportion of the informal trade set up to exploit price differences between countries will disappear with the harmonisation of agricultural and trade policies. It has also been demonstrated that integration does not hamper small-scale farmer productivity. In the case of Senegal, an analysis conducted by Brüntrup (2006) concluded that customs tariffs increases failed to raise small-scale farmer prices, but were rather absorbed by the profits of traders and State-owned institutions. So, the stimulation of intra-regional trade would not reduce farmer prices, but rather increase demand for their products.

Improving regional diseases and epidemics management remains a major challenge insofar as it helps to generate additional investments and growth. Motus (2006) stated that the regional policy in matters of migration and health should not only concern migrant diseases control but rather seek the improvement of their physical, mental and social well-being, given that healthy migrants are a valuable source of production for the host country.

In short, economic integration is a concept which comprises several dimensions, notably the trade, monetary and financial dimensions. The theoretical foundations discussed above justify the need for neighbouring countries to come together in a bid to achieve satisfactory performance levels. The countries of West Africa have embarked on process of sub-regional integration. It is important to assess the real progress made by these countries within the framework of this integration process. In the rest of this study, the focus will be on the specific case of macroeconomic policy integration, a precondition for establishing a single monetary zone in ECOWAS.

Section II: The theory of optimum currency areas

This part of the report will be devoted to a review of the literature on the theory of Optimum Currency Areas.

The concept of the theory of optimum currency areas officially emerged with the work of Robert A. Mundell in 1961. In his work, Mundell defined labour mobility as the key attribute of an optimum currency area. Over the years, the theory has undergone several changes regarding the definition of optimality of currency areas. In this section, we will be primarily concerned with the definition of currency areas, after which we will discuss the different important aspects of a monetary union and, finally, fiscal federalism within a monetary union.

II.1. Definition of a Currency Area:

There are several types of currency areas depending on the degree of integration. The integration framework prioritized by Robert A. Mundell is that of a full monetary union. In such a monetary union, there is a central bank and a single currency for all member countries. States are therefore not involved in the management of monetary policy, exchange rates and reserves. These responsibilities are centralized with the central bank of the union. Monetary union also implies perfect capital mobility between member regions. Such a union would represent the highest degree of monetary integration. McKinnon (1963) also admits that the optimum currency area is influenced by the degree of openness of the economy which is defined by the ratio of tradable to non-tradable goods. The author further considers that a situation of common currency, fiscal or monetary policy and a flexible external exchange rate helps support three sometimes conflicting objectives, namely maintaining full employment, balance of payments and stabilization of the domestic price level.

In more recent studies conducted by George S. Tavlas (1993), he defined the following four types of monetary integration:

- **An exchange rate union**: This is a union in which the exchange rate regime is irrevocably fixed. Member States apply an independent and uncoordinated monetary policy, although there must be capital movement controls.
- **A pseudo-exchange rate union**: In such a union, the exchange rate regime is fixed. There is weak coordination of monetary policies, but free capital movement.
- **A monetary integration area**: Such a monetary area has an irrevocably fixed exchange rate regime, with perfect currency convertibility, good financial integration and a common monetary policy.

A monetary union: This is a monetary integration area coupled with a single currency and central bank for the whole community.

The four types of monetary areas outlined by Talvas fully cover all monetary zones existing today. Other authors like Taylor propose five forms of monetary integration (see box below). The existence of several monetary areas results from the fact that governments wish to maintain a stable exchange rate, capital mobility and monetary autonomy. In a regime with fixed exchange rate and perfect capital mobility, maintaining an independent monetary policy will result in an imbalance in the balance of payments as well as capital speculation. However, instability and/or lack of confidence in certain types of monetary areas have not allowed them to last long. Such zones include the exchange rate union and pseudo exchange rate union. The creation of a monetary area entails benefits and costs, and that is what we will look at in the next section.

The Five Forms of Monetary Integration, Taylor (1994), Chipta and Mkandawire (1994)

Limited currency convertibility
Party countries decide to harmonize or unify their exchange rate policies and adopt a uniform exchange rate fluctuation policy vis-à-vis the rest of the world. This facilitates free use and full convertibility of national currencies.

Parallel monetary union
States parties have a common currency coexisting with national currencies. The common currency is linked to national currencies according to specific and fixed terms.

Partial monetary union
The countries participating in this form of Union adopt the same exchange rate regime and establish a fixed exchange rate between their currencies. A change in exchange rates is permitted only in exceptional cases.

Single Monetary Union
This is a monetary zone with a single currency. The exchange rate of the currency is determined by a single central monetary authority.

Total economic and monetary union
This is the ultimate goal of any monetary union. A single currency is created and existing autonomous central banks are replaced by a single monetary authority. This entails centralizing reserves, setting a common external exchange rate and adopting a common monetary and credit policy.

Source: ECA/SRO-WA, *Le Point de l'Intégration* No.7, June 2000.

II.2. Benefits and Costs of a Currency Area:

We will first discuss the benefits associated with a currency area and then the costs of that choice.

Benefits of a Currency Area

A currency area has many benefits, including:

- **Gain in certainty**: indeed, removing the exchange rate between two highly integrated countries will help eliminate all the uncertainty and volatility of prices of tradable goods, thus enhancing trade between the countries. This will further boost investment and eliminate the risk premium on the exchange rate although it is now possible to hedge exchange rate risks on the market. However, transaction costs will certainly be linked to the volatility of exchange rates despite hedging opportunities on the market.
- **Control of inflation**: in fact, a country that has price stability problems could unite with a country with a low inflation currency. The inflationary country could therefore benefit from the reputation of the non-inflationary country and improve the value of its currency since inflation plays a vital role on the value of currency.

  All this will be possible only if the anchor country maintains its anti-inflationary reputation.

- **Elimination of transaction costs**: when States decide to form a monetary union with a single currency, trade-related costs between them are eliminated.
- **Improving the well-being of individuals**: enterprises and consumers who usually buy foreign products gain considerably from the elimination of transaction costs. The uncertainty linked with a change in exchange rate may therefore not only reduce the well-being of a "risk adverter" population but also result in a lower than expected income.

Costs Associated with a Currency Area

The theory suggests a number of costs that will be incurred by a State joining a monetary union. They include:

- **Renunciation of its monetary policy**: a country that joins a monetary union at the same time entrusts the management of its monetary policy to the common central bank. This means giving up part of its sovereignty. The country cannot therefore change the price of its currency through devaluation nor valuation, nor even less by determining the quantity of domestic currency in circulation. The country no longer has the possibility of deciding between inflation and unemployment and cannot independently print money.

- **Loss of exchange rate management prerogative**: the exchange rate is a fast way of adjusting to shocks to offset the impact of wage rigidity. Losing its management is therefore a cost for a country member of a monetary union.
- **Differences in labour market structure** lead to costs in joining a monetary union. In some countries the labour market is characterized by a very dynamic union life, while in others this is not the case. This heterogeneity is a source of great disparity in wages and rising prices, thus leading to dissimilar unemployment among Member States of the monetary union.

In conclusion, being a member of a monetary union entails benefits and costs. However, there are indications that the creation of a monetary zone is worthwhile, despite the abovementioned costs. All the same, it is important to consider how a shock impacts all countries of the union. In other words, is the shock balanced or unbalanced across countries? According to McKinnon (1963), it would be difficult for a small open economy to apply an effective exchange rate policy; it would be more beneficial for the small economy to ally with a larger monetary union. Kenen (1969) however shows that small open economies are generally specialized while large closed economies are more diversified. According to Kenen, the large economy will undergo symmetric shocks while the small economy will undergo asymmetric shocks. On this basis, countries specialized in different areas are at risk of asymmetric shocks. In such a context, solving the equation posed by a common adjustment policy for the union can lead to an imbalance in some economies of the union because they will be differently affected by shocks. It would therefore not be an optimal solution for them to unite because the symmetry of shocks will greatly depend on the structure of the economies of each of the member countries of the union.

Section III. The concept of macroeconomic policy convergence

The issue of convergence has been at the centre of macroeconomic growth theory since the ground-breaking article by R. Solow (1956) and its formal extensions. One of the notable findings of R. Solow's (1956) neoclassical growth model is that each economy converges to a balanced growth path with full employment. Subsequently, this concept was used to describe the process through which the economies of poor countries should catch up with the economies of countries with a high standard of living; the latter being assessed by the per capita income. Against this background, the economic growth rates in developing countries should, in the long run, be higher than those of the developed countries, thus helping to ultimately close the gap between the levels of development of these two categories of countries.

The concept of convergence covers several different phenomena according to the analytical perspective considered. Convergence can be described as absolute or conditional. The postulate that poor countries would catch up with the rich ones is called **absolute convergence**. It is based on the hypothesis of diminishing returns of capital and of perfect international dissemination of technical progress. In the same vein, B. Elmslie (1995) argues that poor countries may converge towards the level of development of advanced countries through technology transfer. The introduction of differences in structural characteristics between countries – infrastructure, human capital, level of integration or international level – leads to the achievement of a process of **convergence which is said to be conditional.**

The concept of **sigma convergence** (Mankiw et al. 1992) is used to assess inequalities between nations or regions. With this method, there is convergence when the dispersion of per capita income reduces over time. In contrast, when the focus is on economic dynamics, the concept of **beta convergence** (Barro and Sala-i-Martin, 1990) is used. Beta convergence implies the presence of a catch-up mechanism which reduces the gap between the per capita incomes of the different countries. The beta coefficient is an indicator of the speed of convergence of the economies towards their steady-state. A country's economic growth rate is higher when the economy is far from its steady-state. Moreover, countries are subject to specific shocks which increase the dispersion of per capita incomes.

The theoretical and methodological shortcomings of these different concepts 3 have led to the emergence of new concepts on convergence such as **stochastic convergence** (Bernard and Durlauf, 1995, 1996; Evans and Karras, 1996), a rather dynamic concept, which is at the origin of the concept of "convergence clubs" (Baumol, 1986; Durlauf and Johnson, 1992, 1995; Berthelemy and Varoudakis, 1995; Galor, 2005) and of spatial convergence (Le Gallo, 2002). **Convergence clubs** refer to groups of countries with identical structural characteristics and similar initial conditions – accumulated human capital and physical capital, investment rates, financial development – to converge towards the same long-term equilibrium path.

Spatial convergence seeks to explore issues of location of resources and activities. It incorporates into the analysis of the convergence process of economies the phenomena of agglomerations and the spread of activities

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[3] Reference can be made in particular refer to the works of Friedman (1992) and Quah (1993) which show that tests for beta convergence may be distorted by regressive fallacy (Galton's fallacy) of regression towards the mean. In addition, they present several methodological issues such as the heterogeneity, the endogeneity and the problems of measurement (Durlauf and Quah, 1999; Temple, 1999). 1997).

throughout territories. It thus enables the highlighting of the role of geography in growth and development, with notably the concepts of spatial autocorrelation and heterogeneity. Spatial autocorrelation refers to the coincidence between similarity of attributes and similarity of locations (Anselin, 1988, 2001): the rich countries tend to be geographically close to other rich countries; it is the same for the poor countries. Spatial heterogeneity refers to the differentiation of variables and behaviours in the space (Le Gallo, 2002).

In other words, in a monetary union, convergence means affirming the harmonization of intra-community policies. At this level, the literature distinguishes several forms of convergence: nominal convergence, real convergence and structural convergence.

Nominal convergence is defined as the process of reconciling indicative dummy variables of macroeconomic stability in time: inflation rates, debt ratios or public deficit to gross domestic product ratios, interest rates, etc. There is also nominal convergence when these variables target a reference value.

Real convergence reflects relative improvement in living standards within a group of countries. It establishes homogeneity in living conditions, resulting in "economic and social cohesion". Practically, it results in the reduction of the disparity of income levels per head in those countries over time. Structural convergence is the harmonization of production conditions. It refers specifically to economic behaviours and mechanisms themselves; its analysis requires information on productivity, unemployment rate, competitiveness, technology, etc.

Chapter B.
Ecowas approach to monetary convergence

The ultimate goal of ECOWAS is to establish a common market in West Africa. This necessarily involves the promotion of an increasingly vibrant sub-regional market. However, since its inception, it has had to cope with a complex sub-regional economic environment characterized by the coexistence of several non-convertible currencies and socialist, autarchic and nationalistic economic policies dominated by multifaceted controls, especially of currencies. In such a hostile environment for economic integration, ECOWAS has taken innovative initiatives to foster political convergence in the integration process.

Section I. Ecowas initiatives in monetary cooperation

ECOWAS has undertaken several initiatives in the quest for integration among the States of West Africa. A series of projects and programmes, as well as several institutions, have been established over the years. This section will be devoted to a review of these institutions and their progress.

<u>I.1. West African Clearing House (WACH)</u>

This was the first initiative in monetary cooperation in ECOWAS. In fact, monetary economic cooperation already existed in West Africa during the colonial era. Such institutions included the "General Government of French West Africa" composed of Benin, Burkina Faso, Ivory Coast, Guinea, Mali, Mauritania, Niger and Senegal and an Anglophone block called the "Currency Board", with exclusive powers to issue and manage the currency in the Gambia, Ghana, Nigeria and Sierra Leone. After independence, integration blocs were dissolved and most countries opted to create their own currency. Faced with a situation of multiple currencies, African leaders decided to initiate monetary integration of the continent. Accordingly, the Association of African Central Banks was established in May 1968 with a monetary organization structured around five regions (North, East, West, Central and Southern Africa). Each regional organization had to establish a multilateral payment mechanism. Hence the establishment of the West African Clearing House in 1975.

WACH had the objective to promote trade within the West African community by allowing a multilateral payment facility, but it encountered many problems, including weakness and diminishing volume of intra-regional trade resulting in difficulties in the payment system. These difficulties also arose from the nature of transactions covered by the House, namely (i) intergovernmental subsidies; (ii) intergovernmental lending; (iii) any payment not falling within the category of current international transactions as defined by the IMF. Moreover, transactions carried out within UEMOA and payments by ECOWAS member countries that were not members of WACH were excluded. Although the volume of transactions covered was low, significant debit positions emerged and constantly increased. The differences in the formulation of regulations based on exchange arrangement systems contributed to the difficulties faced by WACH.

Faced with the continuing weakness of trade, ECOWAS decided in the 80s to consider the issue of monetary and financial integration in order to ensure genuine integration. It therefore conducted studies on the "convertibility of currencies within ECOWAS" with the support of the IMF and subsequently with UNCTAD assistance over the period 1981 to 1983 still on the "limited convertibility of currencies". These studies helped to reach a point of agreement between the different currency areas. The Fifth Summit of Heads of State and Government held in Conakry in 1983 considered the outcomes of the reflections and gave approval for studies to be conducted on the establishment of a single monetary zone. A working group made up of the ECOWAS Secretariat and the Committee of Central Bank Governors, following critical analyses on the inconvertibility of currencies, eventually formulated concrete measures for the creation of a single monetary zone and developed a draft protocol defining the legal and institutional framework for the functioning of a single monetary zone. The opinion of Governors of West African Central Banks was that the proposed establishment of a single monetary zone should be realized in "steps to minimize as much as possible the resulting costs" over a transitional period of five years that could be extended to the end of 1990 until 2000. (ECA, 2000). The Heads of State in 1987 adopted the ECOWAS Monetary Cooperation Programme (EMCP) whose ultimate goal was to create a common currency.

In the context of the economic and monetary integration process and to overcome the difficulties faced by WACH, ECOWAS transformed it into the autonomous West African Monetary Agency (WAMA) in 1993. The tasks assigned to the Agency included (ECA, 2000): (i) to facilitate the use of national currencies of Member States in regional trade and other transactions; (ii) to encourage and foster trade and exchange liberalization among Member States; (iii) to enhance cooperation and consultation between Member States in the monetary field; (iv) to facilitate the harmonization and coordination of fiscal and monetary policies as well as structural adjustment programmes of Member States; (v) to monitor, coordinate and implement the ECOWAS monetary cooperation programme; (vi) to encourage Member States to pursue appropriate macroeconomic policies that are conducive to trade and market-based interest rates that can stimulate intra-regional trade; (vii) to launch and promote policies and programmes on monetary integration in the sub-region; and (viii) to oversee the creation of a single monetary area.

I.2. Ecowas Monetary Cooperation Programme (EMCP)

The EMCP was adopted in July 1987 in Abuja during the Tenth Session of the Conference of Heads of State and Government. It reflected the will of West African leaders to provide the region with a single currency. Its primary objective was to adopt collective measures to ensure monetary harmonization and joint management of institutions. In addition to the primary objective, the EMCP had the following specific objectives:

- Facilitation of intra-regional trade transactions by strengthening multilateral and regional payments as well as the West African Clearing House (WACH) system in the short term;
- Realization, in the medium-term, of regional currency convertibility through greater free use of national currencies in intra-regional trade transactions, at prevailing market rates; and;
- Establishment, in the long-term, of a single currency area comprising all ECOWAS member countries. The area will be characterized by the

use of a convertible currency managed by a common central bank and backed by an external body through a convertibility guarantee arrangement.

Short, medium and long term measures were identified to be developed between 1990 and 2000 for these objectives to be achieved. In the short term, WACH arrears will be settled; WACH will be transformed into a specialized ECOWAS agency while the range of goods admitted to the mechanism will be expanded, with the introduction of new payment instruments and the establishment of a credit facility. Furthermore, non-monetary tariff barriers restricting the use of regional currencies by non-nationals in the community will be removed.

In the medium term, a system of limited convertibility of currencies will be introduced. Countries will be obliged to lift all restrictions on the use and acceptability of national currencies in intra-regional trade and payment transactions. Convertibility agreements will be concluded between States. Expected long-term measures will include: (i) the use of a convertible currency instead of the nine currencies currently in force; (ii) the establishment of a common central bank; (iii) the pooling of foreign reserves; (iv) negotiation with an appropriate international body to guarantee external convertibility.

For these goals to be achieved, States will be required to be part of a dynamic process of macroeconomic convergence. The measures to be applied involve adjusting the currency exchange rate to equilibrium levels; carrying out current and capital transactions within the region; adopting a market-based ECOWAS exchange-rate system; adopting a market-based approach to the use of monetary policies and achieving a single-digit inflation rate.

The agency set up following the transformation of the WACH was the West African Monetary Agency (WAMA). In addition to the objectives of the WACH which it replaced, WAMA also had to contribute to the establishment of the single currency in ECOWAS. However, macroeconomic convergence indicators had to be adopted to allow WAMA to fully play its role. Monitoring these indicators should also help to measure the efforts of each country under the monetary cooperation programme. The first indicators that were agreed upon by 2000 included: (i) reducing the variability of exchange rates to the tune of an average of 10 % until 1998 and 5 % thereafter; (ii) reducing the inflation rate to less than 10 % per year; (iii) reducing the fiscal deficit/GDP ratio to 5 % until 1998 and to 3 % thereafter; (iv) maintaining a 10 % ceiling for Central Bank financing of budget deficits, based on the tax revenue of the previous year. These indicators had to be revised in 1999 and were divided into primary and secondary operational criteria for macroeconomic convergence, like those adopted by UEMOA. The date of establishment of a single currency area was also postponed to 2004.

I.3. Accelerated Approach to Integration in ECOWAS

With the adoption of the new criteria, Member States set up a multilateral surveillance system comprised of the following bodies: (i) the Convergence Council composed of Ministers of Finance and Central Bank Governors to monitor the implementation of macroeconomic policies; (ii) the Technical Monitoring Committee comprising research managers of central banks and senior officials of Ministries of Finance to prepare six-monthly reports on multilateral surveillance; (iii) the Monitoring of the coherence of multilateral convergence programmes by WAMA and the ECOWAS Secretariat; and (iv) the National Coordination Committees responsible for lending assistance to WAMA in collecting and processing data provided by States.

Assuming the management of the multilateral surveillance system was an ECOWAS response, a sign of an acceleration of the process, in the same manner as UEMOA member countries. The other countries therefore had to follow this example; hence the two-tier approach adopted by the Twenty-Second Summit of Heads of State and Government. This accelerated approach to integration involves the establishment of a second monetary zone at the first phase, which will merge with UEMOA thereafter to form a single monetary union in West Africa at the second phase. The West African Monetary Zone (WAMZ) was the name given to the second monetary zone and a number of macroeconomic convergence criteria classified as primary and secondary criteria were formulated at its establishment on 15 December 2000 in Bamako. A theoretical justification of the convergence criteria approach will be discussed in the next section. The macroeconomic convergence criteria chosen by ECOWAS to complete both phases of its programme will be listed later in the report.

After repeated postponement of Phase 1 of the accelerated integration process, the deadline for the establishment of the second monetary zone was set for 2015. The deadline for phase 2, when WAMZ and UEMOA will be merged, is set for 2020.

Section II: Justification, objectives and functioning of the convergence mechanism in Ecowas

II.1. justification and objectives of the convergence mechanism in ECOWAS

Macroeconomic convergence is a fundamental aspect of the ECOWAS Monetary Cooperation Programme. In addition to facilitating the coordination of monetary policies, it provides an opportunity to ensure macroeconomic stability, thus guaranteeing the purchasing power of the future single currency. Consequently, in accordance with the need for convergence of the economies of the sub-region, some indicators were adopted, in 1999[4], which required Member States to comply with the selected criteria in order to resorb their fiscal, monetary and exchange rate imbalances and to create an ideal environment for a successful monetary integration. They should also and above all ensure the convergence of their economies: this concerns the process of macroeconomic convergence. This process consists in wiping out the economic and monetary disparities so as to achieve a homogeneous development of the Member States. In other words, it entails promoting similarity in the functioning of the economies (**nominal convergence**) by means of the monetary stability policy, so that exogenous shocks would have the same dynamic effect on their economies. Thus, for example, the economies of the franc zone were affected differently by the two oil price shocks depending notably on their degree of energy dependence. In such a situation, the national economic policies should be able to respond appropriately, which are often differentiated, to these shocks; but the constraint of the single currency is likely, by forcing member countries to a common and uniform macroeconomic response, to cause a deterioration in the relative position of the most vulnerable countries.

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[4] Decision A/DEC.7/12/99 on the adoption of macroeconomic convergence criteria for the implementation of the ECOWAS monetary cooperation programme

In this perspective, economists today increasingly agree on the importance of fiscal policy as now being the only instrument available to Member States of a monetary union to cushion fluctuations in activity and to foster economic growth. However, the fear that some States may apply irresponsible fiscal policies which compromise the overall stability justifies the introduction of mechanisms to permanently ensure respect for budgetary discipline, and even more generally of economic policies. The purpose of coordinating budgetary policies would be, for example, to prevent the pooling of the burden in terms of interest rates on all member countries, which could result from what would be considered as opportunistic fiscal behaviour for a Member State (free rider). These effects can be especially damaging in countries that have maintained a prudent fiscal policy. In other words, fiscal policy coordination would be expected to reduce the occurrence of shocks and contribute effectively to macroeconomic stabilization. To this end, Kenen (2000) proposes that two main purposes of coordination should be distinguished: firstly, it aims to reach a collective optimum through reciprocal adjustment of instruments (policy optimizing coordination) and, secondly, it is a response to events in order to prevent crises or minimize their consequences (regime preserving coordination). This is what inspired, for example, in the case of the European Union, discussions and debates on budgetary discipline and justified the introduction, from the Maastricht Treaty in 1992, of the prohibition of "excessive deficits" and the introduction, in the 1997 Amsterdam

Treaty, of the Stability and Growth Pact to prevent and punish such deficits. The aim is not to immediately achieve harmonization of national policies, but to henceforth consider their interaction as a topic of common interest. It appears that convergence is important both for existing monetary unions like the Franc Zone and for those under construction like the European Union.

Growth and **real convergence** – which bring closer the productive structures and the levels of the economic and social life (per capita GDP) of the populations – are assumed, in the medium term, to result from compliance with monetary stability. Real convergence can be absolute or conditional. In order to achieve this goal, **convergence criteria** were imposed on Member States. The States should equally aim to achieve **institutional convergence**, by harmonizing their policies and their legal and legislative frameworks relating to public finance, as well as their public accounting procedures or their statistical methods.

There are several steps involved in convergence. The first is to choose the variables on which convergence should be built. It can be nominal, real or both variables. Once the variables have been selected, the second step will consist in choosing the level at which convergence can be achieved effectively. The third step will be to define the fields in which convergence will be applied. Step four concerns the level of centralization or delegation of power based on the principle of subsidiarity. Finally, the fifth step focuses on a strong or soft method.

II.2. Functioning of the convergence mechanism in ECOWAS

The macroeconomic convergence process, which was initiated by UEMOA following the 1994 devaluation of the CFA franc, was also conducted later by the other ECOWAS members to create the West African Monetary Zone (WAMZ), with the exception of Cape Verde which pegged its currency to the Euro like the CFA franc. The monitoring process is based on compliance with the convergence criteria (see Table 2) which are divided into two categories: primary and secondary criteria.

The basic principle laid down by ECOWAS is that integration cannot function properly if the Member States fail to meet the minimum convergence level in relation to price stability, balance of public finances and exchange rates stability. The purpose of the convergence criteria is thus to materialize this requirement.

In June 2012, in Yamoussoukro (Ivory Coast), the ECOWAS Heads of State adopted a Supplementary Act (A/SA.4/06/12) on the **Convergence and Macroeconomic Stability Pact among the ECOWAS Member States**. The Pact, drawing on a study conducted in March

2011[5], reformulated certain convergence criteria and introduced a **new criterion (on public debt). It sets and marks the formal commitment made by** ECOWAS Member States to establish the single currency union of ECOWAS. According to the provisions of the Supplementary Act (Article 3), it aims to: (i) ensure the coordination of economic policies; (ii) strengthen the convergence of the economies of Member States; (iii) foster macroeconomic stability and; (iv) strengthen monetary cooperation. The Pact is implemented in two phases:

- **convergence phase**, from 1 January 2012 to 31 December 2016. By this time horizon, all Member States are bound to comply with all the primary criteria. In the meantime, any State in which instances of non-compliance with set criteria are discovered should initiate corrective measures, within time limits stipulated by the Convergence Council. Exceptional circumstances may be considered, in case of temporary force majeure situation, resulting in particular from exogenous shocks. An incentive/sanction mechanism may be defined by the Convergence Council (Article 20 of the Supplementary Act), although the terms and conditions thereof are not specified in the Act;

[5] Lama J. (2011) "Study on the harmonization of convergence criteria within ECOWAS", conducted in June 2011, for the ECOWAS Commission.

- **phase of stability and performance consolidation**: as from 1 January 2017. During this period, States strengthen their gains and implement macroeconomic policies which help to achieve sound and sustainable growth.

In order to achieve the objectives of convergence, each Member State develops a multi-year **convergence programme** (Article 5 of the Supplementary Act) over a five-year period, based on a methodology defined by ECOWAS. It notably includes an analysis of recent economic developments and prospects, a description of economic policy measures to be implemented in order to achieve the objectives of the programme, in the light of the convergence criteria, as well as the likely evolution of the convergence criteria over the programme period, the possible difficulties in achieving them and the possible measures to remedy the situation.

Henceforth, the community convergence mechanism thus comprises, **eleven criteria, with four (4) primary and seven (7) secondary** (see Table 2 below). It is monitored through a **multilateral surveillance** mechanism in the form of an annual assessment by the Convergence Council (composed of the ministers of finance and governors of the central banks of Member States), based on the report of the Technical Committee on Macroeconomic Policy. The analysis of these convergence criteria helps to categorize them under five types of constraints which States must comply with, namely:

- ***Price stability:*** The annual inflation rate of member countries should not exceed 5 %. Price stability reflects the credibility of monetary and fiscal policies. It is in this sense that budget deficit financing is limited to a maximum of 10 % of the previous year tax revenues, thus preventing any hint of fiscal policy dominance over monetary policy. However, monetary financing does not concern UEMOA member countries, which had suspended this measure since the year 2000. Based on the new convergence criteria adopted in June 2012 by the Conference of Heads of State and Government, the inflation rate is henceforth assessed on an annual average, rather than a year-on-year basis;
- ***Public finance sustainability*****:** the budget balance should not show excessive deficit. Under normal conditions, it should not exceed 3 % of GDP, including grants. A level of fiscal pressure above 20 % of GDP will certainly help to achieve this goal. The sustainability of public finance also imposes the non-accumulation of domestic and external arrears. Lastly, it was decided in 2012 to subsequently maintain the debt stock to less than 70 % of GDP, in addition to the limitation of the budget deficit financing by the central bank to less than 10 % of the previous year's tax revenues;

- ***Exchange rate stability*:** Member States should comply with the normal fluctuation margins stipulated for the nominal exchange rate. The stability of the exchange rate is assessed, since 2012, on the basis of the evolution of the nominal exchange rate with respect to the West African Unit of Account (WAUA) rather than the real exchange rate;

- ***Interest rates alignment*** will express the sustainability of degree of convergence achieved by the Member State and of its participation in the exchange rate mechanism. Since 2012, the calculation of the real interest rate is based on the 91-day Treasury bills rate rather than the savings rate;

- ***Foreign exchange reserves***: the gross external reserves should represent at least six months of imports.

Regarding **institutional convergence**, ECOWAS projects are implemented within the framework of the roadmap for the single currency. It includes, in particular, harmonization activities in the following sectors:

- Statistics (national accounts, consumer price indices, balance of payments);

- National fiscal policies;

- Accounting and statistical frameworks for public finances;

- Regulatory and supervision frameworks for banks and other financial institutions;
- Rules governing transactions on current accounts and capital accounts within and outside the ECOWAS region;
- Presentation of accounting and financial information for banks;
- Monetary policy frameworks;
- Payment system infrastructure;
- Dismantling of tariff and non-tariff barriers to free movement of goods, persons and services within ECOWAS;
- Liberalization of capital accounts within ECOWAS;
- Integration of financial markets in ECOWAS region;
- Ratification, by Member States, and establishment of WAMZ institutions and instruments, and subsequently, of the ECOWAS common currency.

The status of implementation of the activities in the Roadmap is assessed annually during meetings of the Convergence Council and the Technical Committee on Macroeconomic Policy. In addition, the Conference held in Dakar in October 2013 enabled the Heads of States to reaffirm their political will for the creation of a single currency in West Africa, as well as their commitment to the monetary cooperation programme and the roadmap adopted for that purpose. In that connection, the Conference directed the President of the Commission to take appropriate measures, in collaboration with the West African Monetary Agency (WAMA) and the West African Monetary Institute (WAMI), to accompany States to ensure the speedy implementation of activities of the Roadmap on the ECOWAS single currency programme.

Table 2. Convergence criteria for the economies of West Africa

UEMOA (WAEMU)	WAMZ	ECOWAS
BENIN, BURKINA FASO, IVORY COAST, GUINEA BISSAU, MALI, NIGER, SENEGAL, TOGO	GAMBIA, GHANA, GUINEA, LIBERIA, NIGERIA, SIERRA LEONE	UEMOA + WAMZ + CAPE VERDE
Primary criteria		
● Ratio basic budget balance over nominal GDP (key criteria) ≥ 0 %; ● Average rate of annual inflation: ≤ 3 % per year; ● Ratio of exceptional domestic and foreign debt in relation to nominal GDP ≤ 70 %; ● Payment arrears: - Domestic arrears: non-accumulation of arrears during the current functioning period	● Budget deficit, excluding grants in % nominal GDP ≤ 4 % ● Inflation rate (end of period) <10 % ● Funding by the central bank of the budget deficit in relation to the fiscal revenues of the previous year ≤ 10 % ● Gross reserves (in months of imports) ≥ 3 months	● Inflation rate (annual average) ≤ 5 % ● Budget deficit in % of nominal GDP (including grants) ≤ 3 % ● Funding by the central bank of the budget deficit in relation to the fiscal revenues of the previous year ≤ 10 % ● Gross external reserves ≥ 6 months

- External arrears: non-accumulation of arrears during the current functioning period.		
UEMOA	**WAMZ**	**ECOWAS**
Secondary criteria		
● Ratio wage bill over fiscal revenues ≤ 35 % ; ● Ratio of public investments financed on internal resources in relation to fiscal revenues ≥ 20 % ; ● Ratio of the current account deficit in relation to nominal GDP ≤ 5 % ; ● Rate of fiscal pressure ≥ 17 %.	● Fiscal revenues in percentage of GDP ≥ 20 % ; ● Wage bill in % of nominal GDP ≤ 35 % ; ● Public investments financed at national level in % of fiscal revenues ≥ 20 % ; ● Real interest rate > 0 % ; ● Nominal exchange rate +/- 15 % ; ● Non-accumulation of arrears.	● Non-accumulation of domestic and external arrears under current management. ● Ratio of wage bill over fiscal revenues ≤ 35 % ; ● Ratio of public investments s financed on internal resources in relation to fiscal revenues ≥ 20 % ; ● Rate of fiscal pressure ≥ 20 % ; ● Real interest rate > 0 % ; ● Stability of the nominal exchange rate (+/- 10 %);

Chapter C.
Real assessment of progress in macroeconomic policy convergence within ecowas

For several decades, West African countries have been engaged in a process of economic integration, particularly in the monetary and trade domains. It will be useful to assess this process so as to better describe any possible problems which impede countries from establishing a unified economic area. To this end, we will proceed in two stages, by examining, in the first section, the economic and trade situations of countries in the sub-region, and, in the second section, the macroeconomic and institutional convergence of these countries.

Section I. Economic and trade situations

An analysis of economic activity in ECOWAS countries will be the subject of the first sub-section. The evolution of trade between these countries will be discussed in the second subsection.

I.1. Trends in the economic situation

In its economic activities, the West African region has experienced positive developments in recent years. GDP increased by 6.31 % on average between 2007 and 2012. And even at the height of the energy, financial and economic crisis, the regional GDP growth rate was, on average, 6.01 %, 5.78 % and 5.46 % in 2007, 2008 and 2009[6], respectively (see Table 3). According to estimates by International Monetary Fund (IMF) in October 2013, the global GDP growth rate should be 2.87 % in 2013, while sub-Saharan Africa's GDP should record an increase of 4.96 % and that of ECOWAS should rise by 6.39 %.

Economic activity in the Community is carried out in a context of lower inflation, due particularly to the easing of tensions on world commodity markets in 2012 and improvement in climatic conditions in the Sahel region. The annual average inflation rate in the Community thus stood at 9.1 % in 2012 against 10.1 % in 2011. Inflation is better controlled in the UEMOA zone with 2.3 % in 2012 against 3.9 % in 2011.

In all ECOWAS countries, budget balances, including grants, were negative in 2012, reflecting the impact of the global crisis on the West African economies. Moreover, the pattern of trade had changed little between 2011 and

[6] Source : WEI, 2012

2012. The balance of the current account was estimated at 0.8 % in 2012, due to economic recovery in Ivory Coast, the decline in Nigeria's surplus and rising food needs. All other countries recorded negative external balances except for Nigeria, with a positive balance of 3.5 %.

Overall, the economic situation of ECOWAS recorded dynamic growth as from 2005, with an average annual rate of over 5 %. This good performance ranked the sub-region one of the fastest growing areas in the world. However, this achievement conceals many structural weaknesses, notably an excessive dependence on raw materials for export and on climatic conditions. In addition, the security threat, resulting from serious governance shortcomings, is now a major challenge for the sub-region. It strongly influences its economic and social prospects.

Table 3. Growth rate trends in West Africa

COUNTRY	2007	2008	2009	2010	2011	2012	2013 (Est)
Benin	4.6 %	5.0 %	2.7 %	2.6 %	3.5 %	5.4 %	5.0 %
Burkina Faso	4.1 %	5.8 %	3.0 %	8.4 %	5.0 %	9.0 %	6.5 %
Côte d'Ivoire	1.6 %	2.3 %	3.8 %	2.4 %	-4.7 %	9.8 %	8.0 %
Guinea Bissau	3.2 %	3.2 %	3.0 %	3.5 %	5.3 %	-1.5 %	3.5 %
Mali	4.3 %	5.0 %	4.5 %	5.8 %	2.7 %	-1.2 %	4.8 %
Niger	0.6 %	9.6 %	-1.0 %	10.7 %	2.2 %	11.2 %	6.2 %
Senegal	5.0 %	3.7 %	2.2 %	4.3 %	2.6 %	3.5 %	4.0 %

Togo	2.3 %	2.4 %	3.5 %	4.0 %	4.8 %	5.6 %	5.5 %
UEMOA	**3.1 %**	**4.2 %**	**3.0 %**	**4.8 %**	**0.9 %**	**6.5 %**	**6.1 %**
Cape Verde	9.2 %	6.7 %	-1.3 %	1.5 %	4.0 %	2.5 %	1.5 %
Gambia	3.6 %	5.7 %	6.5 %	6.5 %	-4.3 %	5.3 %	6.4 %
Ghana	6.5 %	8.4 %	4.0 %	8.0 %	15.0 %	7.9 %	7.9 %
Guinea	1.8 %	4.9 %	-0.3 %	1.9 %	3.9 %	3.9 %	2.9 %
Liberia	13.2 %	6.2 %	5.3 %	6.1 %	7.9 %	8.3 %	8.1 %
Nigeria	7.0 %	6.0 %	7.0 %	8.0 %	7.4 %	6.6 %	6.2 %
Sierra Leone	8.0 %	5.2 %	3.2 %	5.3 %	6.0 %	15.2 %	13.3 %
ECOWAS	**6.0 %**	**5.8 %**	**5.5 %**	**7.2 %**	**6.7 %**	**6.7 %**	**6.4 %**
Sources : *World Development Indicators,* (Est) Estimates for 2013.							

The differences in member country economic performance can be explained in part by changes in the terms of trade7 and above all by the diversity of exchange rate policies in the ECOWAS region. Some authors, who studied the impact of changes in nominal exchange rates on the competitiveness of UEMOA countries using the real effective exchange rate (REER), highlighted the behaviour of the euro against the US dollar. Thus, an appreciation (depreciation) of the euro against the dollar causes an appreciation (depreciation) of the REERs. The results of studies show, on average, a much stronger appreciation of REERs before the 1994 devaluation than

[7] Structural weaknesses in export sectors of ECOWAS countries cause an increase in the magnitude of terms-of-trade shocks and their asymmetrical character (J. Lama, 2011).

after (WAMA, 2009). This appreciation of REERs, by increasing the price of products, made UEMOA countries less competitive and negatively affected their economic performance. Thus, changes in the REERs were generally more favourable for the WAMZ than for UEMOA zone.

However, a favourable REER trend – thus ensuring competitiveness for products of the area – does not necessarily generate a foreign trade surplus. Two main reasons may explain this. Firstly, the trade performances of ECOWAS (UEMOA+WAMZ) depend heavily on the economic situations in the partner countries – advanced and emerging countries. Secondly, the export products – raw materials which are not (or only slightly) processed – are marked by a relatively rigid supply (mining, oil) or by dependence on climatic conditions (cereals).

Indeed, a sluggish global demand and/or poor weather conditions – therefore causing a decline in the volume and quality of supply – will lead to a decline in export earnings. A review of statistical data for the period 1986-2008 shows that generally ECOWAS countries very often recorded current account deficits (S.A. Dieng, 2012a). On the whole, Nigeria, The Gambia and Ivory Coast are the best performing countries, although at times, they experience situations of current account deficits.

In contrast, the appreciation of the euro does not only have adverse effects; it allows UEMOA countries – by reducing the price of imported goods or cushioning their increase – to ensure the stability of their inflation level. For example, the oil bill, expressed in US dollars, is reduced as the euro appreciates against the US dollar. In addition, inflation is better controlled in the UEMOA (about 3 %) than in the WAMZ zone (often in double-digits).

An examination of the statistics on the real interest rate for the 1980-2008 period has shown that there are often marked differences between countries (S.A. Dieng, 2012b). But in general, the evolution of real interest rates is more unfavourable for the economic activity of UEMOA countries than for the WAMZ countries. Monetary and financial conditions seem to be much stricter and more binding in the UEMOA countries – hence their low level of inflation. This fact is mainly due to the strict convergence criteria to be observed by these countries particularly to ensure the credibility of their common currency. The WAMZ countries also comply with the convergence criteria in preparation for the future single currency of ECOWAS, scheduled for 2020.

I.2. Recent Trends in West African trade

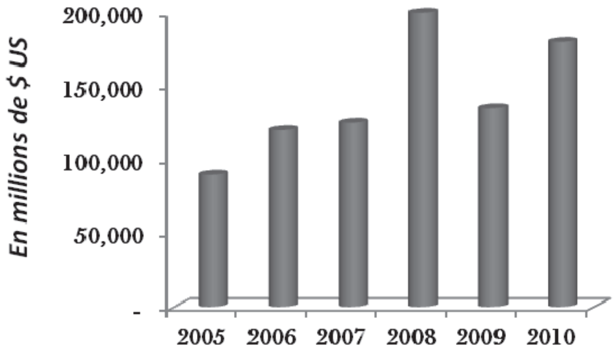
Recent trends

Trade in West Africa has its material basis in the exportation of two categories of resources: mineral resources, namely oil, of which it is the continent's largest exporter, manganese (34 % of world production), iron

(27 % of African production), bauxite (almost all of Africa's production), uranium (Africa's main reserve), gold, etc. In addition, exports include cocoa (over 60 % of world supply), cotton (5 % of world supply), coffee, rubber, and fruits. Imports are dominated by everyday consumer goods, notably fuel and food products.

Recent global trade by ECOWAS has increased at an average annual rate of 18 % between 2005 and 2010. However, this progression was zigzagged. In 2006, trade increased by 28 % compared to 2005 and grew only by 1 % in 2007. Trade recorded a 57 % leap in 2008, before plunging to -33 % in 2009 and resuming the growth trend in 2010, increasing by 36 % compared to 2009.

Chart 1. Recent developments in ECOWAS global trade



***Source* : UNCTAD, 2010**

The sharp increase in 2008, in excess of 100 % compared to 2005, is explained, all things being equal, by the worsening economic and food crisis. This led to massive imports of non-food items, including factors of production, in a bid to eventually stem the surge in prices of basic foodstuffs in 2007. Thus, imports rose to US $108,002 million against US $102,068 million for exports and US$3,178 million for re-exports. But food imports declined in 2008, amounting to US$10,215 million compared to US $ 11,862 million in 2007. The boost of imports in 2009 and 2010, which amounted to US$10,474 million and US$ 10,500 million, respectively, shows that imports of consumer goods have not had a very significant effect in the handling of the food crisis.

Though the crisis reduced exports, thus limiting ECOWAS' internal capacity to finance its imports in 2007 and 2009, it paradoxically favoured a boom in trade in 2008, which was mainly induced by Nigeria's fuel exports, which stood at US$ 74,839 million against US$ 51,998 million in 2007 and 44,942 million in 2009.

Main countries benefiting from regional trade

ECOWAS exports are dominated by Nigeria and Ivory Coast which both account for 87 % of transactions. Nigeria accounts for 77 % of regional exports and Ivory Coast for 11 %. The other two leading countries in the region, that is, Ghana and Senegal, are ranked third and fourth, accounting for 4 % and 2 %, respectively. Mali comes next to these traditional leaders with 1.7 % of regional exports. Five countries (Benin, Burkina Faso, Guinea, Niger and Togo) each account for 1 % of regional exports. Four countries, Nigeria, Ivory Coast, Ghana and Senegal form the winning quartet of regional trade. They account for 87 % of the trade in West Africa.

Nigeria alone accounts for 77 % of exports. Its fuel exports represent 73 % of the total exports of West Africa. Nigeria is the largest importer of foodstuffs with 40 % of regional imports and 41 % of regional imports of non-food items.

Ghana emerges as a new regional power by accounting for 11 % of the regional trade, ahead of Ivory Coast, but hardly maintains this position with 4 % of total regional exports and despite the 18 % of regional imports it receives, which is equivalent to US$ 12.6 billion on average. The exploitation of its oil fields could consolidate its regional economic standing.

Ivory Coast still retains its position of economic power in the region, despite the decade of political crisis that dented its economic production infrastructure. It currently ranks third behind Ghana and Nigeria, with 10 % of regional trade. It is still the second regional exporter (11 % of total exports from ECOWAS) and accounts for 10 % of the total West African imports, regardless of origin.

Senegal is a country weighed down by imports of foodstuffs. It is the second largest food importer in the region, with 14 % of West African imports. It accounts for 6 % of total trade in West Africa, which is about an average US $9 billion annually.

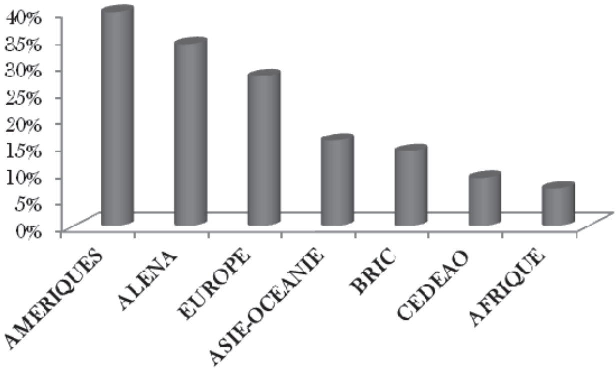
Geographical orientation of exports

Europe accounts for about 28 % of ECOWAS exports, out of which 23 % to the European Union (UE 27). The Americas account for 40 %, out of which 34 % to the North American Free Trade Agreement (NAFTA) zone, comprising the United States, Canada and Mexico.

Therefore, Europe and the Americas are the main destinations for West African exports (68 % of exports), out of which 57 % to the EU and North America. By purchasing 34 % of ECOWAS exports, NAFTA demotes to second position the Community's traditional partner, namely the EU. Trade openness fostered by globalization has shown a substantial breakthrough by countries of Asia and Oceania, which account for 16 % of exports, out of which 0.3 % is to the Near and Middle East. ***ECOWAS itself accounts for 9 % of these exports from the sub-region***, a little more than what Africa buys from the region (7 %), out of which 1 % is for North Africa and 6 % for the rest of Africa including regional economic communities of Central, East and Southern Africa.

With respect to the other regions of the world, mention could be made of the Association of Southeast Asian Nations (ASEAN) which accounts for 2 % of exports. Apart from India and China, ECOWAS exports to the rest of Asia are not very significant.

Chart 2. Destination areas of ECOWAS exports



<u>Source</u> :*UNCTAD, 2010*

West African exports structures differ from one major region to the other. Thus, exports to the EU which total 79 % are composed of fuel (65 %) and cocoa products (14 %); while for exports to North America, these two products constitute about 98 %.

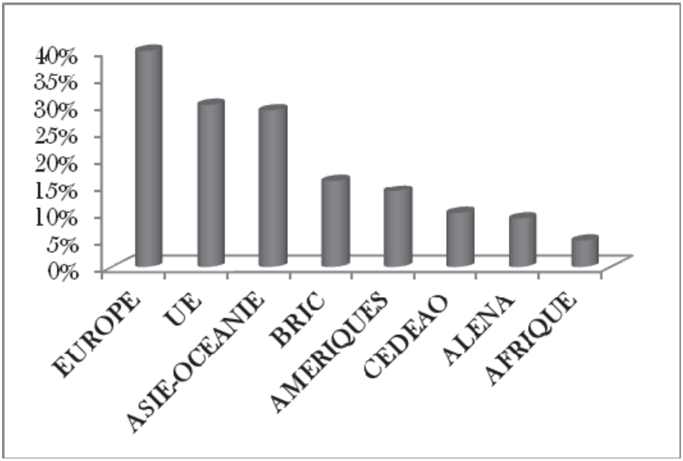
In Africa, 91 % of ECOWAS exports to all three Regional Economic Communities (RECs), namely COMESA, SADC and EAC, are composed of fuel and precious stones, as well as hides and skins (3 %) and cocoa products (1 %). On average, 95 % of exports to these RECs are composed of these four product groups.

Geographical focus of imports

Total imports by the community are dominated by Nigeria, which alone accounts for 41 % of all transactions against 18 % for Ghana, 10 % each for Senegal and Ivory Coast. Nigeria and Ghana jointly account for 59 % community imports against 36 % for the eight UEMOA countries. The other five ECOWAS member countries account for only 5 % of community imports. In terms of volume, these imports are dominated by cereals, grain mill products and processed cereal-based foods. These three product groups account for 57 % of import volumes, out of which 52 % are cereals and 3 % are grain mill products and 2 % are processed cereal-based foods.

Europe is the main supply source for ECOWAS and accounts for 40 % of imports in the region, which represent an annual average cost of US $28,541 million. Approximately 30 % of imports are from the European Union in particular. Asia and Oceania rank second with 29 %, which amounts to US $ 20, 945 million, ahead of the Americas (14 % or US$ 9,613 million, out of which 9 % from NAFTA). These three regions, namely Europe, Asia-Oceania and the Americas, provided the Economic Community of West African States, on average, 84 % of its imports, equivalent to US$ 58,949 million per year over the 2005-2010 period.

Chart 3. Origins of ECOWAS imports



Source **:***UNCTAD 2010*

The BRIC group is the third imports source for ECOWAS, accounting for 16 % of total imports ahead of the Americas. Compared to their 2005 level, which was US$ 4,912 million, imports from the BRICs increased by a factor of 2.42 in 2007, 2.86 in 2009 and 3.55 in 2010. In contrast, imports from the traditional trading partner, namely the EU, increased by a factor of 1.75, that is, rising from US $13,923 million in 2005 to US $24,424 million in 2010. Thus, the BRIC group exports to ECOWAS, on average, US$ 11,841 million of goods per year, that is 16 % of its commercial imports. Between 2005 and 2010, ECOWAS imports from the BRIC goods amounting to US$ 68,884 million. Imports from Africa, including North Africa, account for 5 %.

Analysis of intra-regional trade

According to the ECOWAS Commission, one of the principal objectives of the establishment of ECOWAS is to promote trade among member countries (W. K. Olayiwola, 2012). An analysis of available statistics reveals that the level of intra-ECOWAS trade is low8. The share of intra-community trade in total trade of the member countries has even decreased over time (8.1 % in 2012 against 16.2 % in 2001) [see Table 4 below]. This level is very disappointing given various measures taken by ECOWAS to increase the volume of sub-regional trade, such as increasing the number of industrial products eligible for preferential rates – which skyrocketed from 25 to 1,190 between 1990 and 2000 (W. K. Olayiwola, 2012).

[8] For J. Lama (2011, p. 39), "the predominance *of raw materials in* external *trade (*of ECOWAS) *and the limited intra –regional trade are major sources of vulnerability to external shocks*".

However, these figures need to be put in perspective, since, according to the UNCTAD report (2013, p. 19), "estimates of informal cross-border trade transactions in West Africa show that these could represent 20 % of Nigeria's GDP and 75 % of the GDP in Benin (Afrika and Ajumbo, 2012). These *estimates suggest that the actual share of intra-African trade in total trade is higher than the official figures.*

Moreover, the UNCTAD 2013 Report notes that almost all African RECs carry out a significant portion of their intra-African trade within their own community space. ECOWAS is ranked 2nd among the eight RECs just behind SADC with 76.2 % of its trade carried out within the community. This percentage declined between 2001 and 2006 and in 2007 and 2011 to stand at 72.7 % and 65.5 %, respectively. The decrease is very significant since it exceeds 10 percentage points.

However, the weakness of intra-regional trade is not specific to ECOWAS. Indeed, several RECs in Africa are experiencing the same situation, as, for example, F. Carmingnani (2006) affirms a low level of trade integration in the COMESA region.

Table 4. Evolution of intra-community trade between 2001 and 2012

COUNTRY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports to ECOWAS (as % of total value of country's exports)												
Benin	13.7	20.7	19.9	24.2	26.7	30.0	24.9	39.4	49.3	55.6	55.6	55.6
Burkina Faso	22.0	23.0	87.8	78.3	23.8	26.3	32.2	25.6	7.5	9.6	9.6	9.6
Cape Verde	3.0	5.1	0.5	0.4	0.4	5.8	14.9	2.5	1.7	0.6	1.1	0.8
Cote d'Ivoire	24.6	24.6	17.5	22.2	24.8	23.4	25.4	26	24.5	24.9	21.1	22.9
Gambia	8.0	18.6	11.1	2.6	55.1	36.0	26.5	19.8	14.7	36.1	36.1	36.1
Ghana	7.6	9.9	11.6	7.3	9.7	52.8	32.1	7.6	11.2	10.3	30.6	23.7
Guinea	1.6	2.4	9.8	6.8	27.4	10.1	10.1	6.1	3.0	9.3	9.3	9.3
Guinea Bissau	0.1	0.8	0.1	0.3	0.5	0.4	0.1	1.0	4.2	0.7	2.6	2.6
Liberia	0.5	0.2	0.8	0.5	0.8	0.9	1.0	3.0	2.3	1.5	1.9	1.7
Mali	13.0	8.6	9.1	14.0	10.4	5.7	9.0	13.2	10.5	11.9	11.2	11.6
Niger	45.1	43.6	40.8	23.2	30.3	28.2	31.3	45.8	53.1	48.8	50.7	49.7
Nigeria	4.5	6.7	4.6	3.7	4.0	6.3	4.2	7.2	4.3	2.4	3.4	3.0
Senegal	17.1	21.3	26.5	30.3	30.0	32.4	37.4	31.9	31.0	34.7	32.1	33.2
Sierra Leone	65.3	93.8	28.2	0.5	11.6	5.9	47.4	91.9	53.4	6.8	2.1	3.2
Togo	46.2	46.4	46.7	53.8	53.5	57.0	60.0	68.7	51.0	58.2	58.2	58.2
ECOWAS	9.6	12.8	12.2	8.9	8.4	14.1	9.1	11.4	10.4	6.8	8.2	7.8

COUNTRY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Imports from ECOWAS (as % of the total value of country's imports)												
Benin	24.0	22.5	21.9	23.0	22.0	31.7	21.3	18.3	18.0	17.9	17.9	17.9
Burkina Faso	27.2	26.5	44.6	43.7	27.6	29.1	25.9	25.5	23.9	26.2	26.2	26.2
Cape Verde	2.1	3.3	8.1	6.6	7.2	9.7	4.1	1.5	2.0	1.4	1.7	1.5
Cote d'Ivoire	20.7	16.1	16.2	21.6	25.7	22.7	26.1	31.7	23.0	28.0	25.9	27.0
Gambia	10.7	8.7	8.6	16.3	15.7	13.4	10.0	13.4	17.6	23.4	23.4	23.4
Ghana	15.3	18.4	18.6	14.5	17.5	4.6	10.4	13.7	6.7	9.3	4.9	6.8
Guinea	18.5	14.8	8.8	21.4	25.4	19.9	3.3	3.5	3.9	4.0	4.0	4.0
Guinea Bissau	22.9	24.8	18.8	38.4	53.9	44.2	39.2	26.8	18.8	16.3	17.6	17.6
Liberia	0.9	0.1	0.7	1.1	1.8	1.5	0.9	10.7	0.7	0.5	0.6	0.6
Mali	33.7	36.9	36.4	47.4	35.5	39.6	46.6	40.4	39.0	29.9	34.5	32.2
Niger	34.1	30.8	31.5	31.0	29.2	23.6	23.5	18.7	14.9	11.4	12.8	12.1
Nigeria	4.3	1.0	2.4	2.9	6.1	1.0	2.3	3.3	0.2	0.4	1.4	0.9
Senegal	19.9	18.7	22.8	22.5	21.9	11.3	17.3	25.6	15.1	13.9	14.5	14.2
Sierra Leone	34.4	26.8	28.5	33.7	33.6	76.4	66.8	44.3	55.6	49.9	52.7	51.3
Togo	14.2	12.9	14.1	16.9	13.3	12.8	12.2	14.2	13.1	12.5	12.5	12.5
ECOWAS	16.2	13.5	13.6	18.8	19.8	12.9	12.5	16.8	8.8	8.5	7.4	8.1

Forecasts for 2011 and 2012

Source *: ECOWAS Commission*

The lack of quality transport infrastructure and industrial enterprises are factors that account for the weak intra-community trade. W. K. Olayiwola (2012) considers that other major obstacles, such as tariff and non-tariff barriers, uncompetitive products, high transaction costs and poor communication networks are other hurdles not only to intra-ECOWAS trade but also to trade between countries of the sub-region and the rest of the world.

Trade between UEMOA countries could thus be tripled if all national roads linking these countries were in good condition. This view, in the UNCTAD Report (2013), is quoted from Coulibaly and Fontagné, who conducted a study in 2005.

Conclusion: In short, the ECOWAS countries have similar trade structures – high proportion of primary products, semi-processed and very competitive goods. Almost all exports are primarily intended for markets in Europe, Asia and North America. Their imports – manufactured goods – are mainly from the same three continents. Intra-ECOWAS trade is therefore particularly marked by the non-complementarity of the domestic products of member countries. In addition to the deficiencies noted in infrastructure, this context readily explains the low level of intra-community trade, resulting in inefficient decompartmentalized markets.

Section II. Performances of ecowas countries in terms of macroeconomic and institutional convergence

II.1. Review of empirical literature on convergence in West Africa

The relatively good economic performance achieved in the last decade by ECOWAS Member States has failed to eliminate the difficulties faced in complying with the convergence criteria. Indeed, several authors – N.L. Bamba and K. Diomande (1998, 2001), A. Tanimoune and P. Plane (2005), P.L. Diop (2005), Nkodia and Sarr (2007) and M.B.O. Ndiaye (2007) J. Lama (2011), K. Nubukpo (2012), M. Jalloh (2012), R.D. Korsu and M.B.O. Ndiaye (2013), A. Traoré (2013), A. Soumare (2013) and C.T. Seck (2013) – have already highlighted the absence or weakness of nominal and/or structural convergence within ECOWAS.

A. Combey and C. Mally (2010), using the beta convergence method to assess real convergence of UEMOA countries, concluded that there was conditional convergence over the 1997-2008 period. This result is attributable, according to them, to the positive effect of the Convergence, Stability, Growth and Solidarity Pact (CSGSP) on the level of total real per capita income and on the living standards of the Union's populations. However, serious objections – such as, a relatively short time horizon and the failure to take into account income poverty – limit the import of their results.

After defining and discussing the relevance of each criterion, J. Lama (2011), also using the beta convergence approach, has observed over the 2000-2009 period that performances in respect of compliance with the criteria of the UEMOA, WAMZ and ECOWAS convergence programmes are contrasting and unstable over time and space. Generally, standards of living and productive structures of ECOWAS economies do not converge. In short, it shows that the results obtained since the beginning of the convergence programmes are mixed and insufficient to qualify as a unified economic space.

P.L. Diop (2002), using the sigma and beta convergence methods over the 1975-2001 period, found a trend showing convergence of inflation rates in UEMOA member countries, except for Guinea Bissau, towards the threshold of 3 % defined by the Convergence, Stability, Growth and Solidarity Pact (CSGSP). The study also reveals a process of real convergence of the economies in the UEMOA zone, unlike in ECOWAS countries which are characterized by differences in per capita GDP. These results are explained by the different initial conditions of the countries – some are oil exporting countries, while others are not. Thus, an energy crisis has different consequences on the wealth of these two categories of countries.

Another study by M. Ndiaye (2006), using the beta convergence method, substantiates this trend towards the convergence of UEMOA economies. In general, he noticed a slow pace in the economic convergence process over the 1980-2000 period. However, he estimated the absolute convergence of per capita GDP at 0.73 % over the 1980-1993 sub-period and at 1.5 % for the 1994-2000 sub-period. The result of the second sub-period – increase in per capita GDP – is probably due to the positive effects of the devaluation of the CFA franc and its accompanying measures.

However, N.L. Bamba and K. Diomande (1998), have shown, using the Kalman filter to estimate sigma and beta parameters, that the nominal convergence of UEMOA countries did not lead to structural convergence. These authors also identified three groups of countries with different convergence processes: the first group – Benin and Burkina Faso – tends to converge towards the largest economy of the Union (Ivory Coast), the second group – Senegal and Mali – tends to converge towards the Union's average and the third group – Niger and Togo – tends to diverge or converge towards these two references.

In assessing the conditional convergence in the UEMOA area, M. Ndiaye (2006) also notes the presence of structural features in the convergence process. His study also reveals the existence of two convergence clubs in the UEMOA space. Ivory Coast and Senegal form the first club and they have a level of convergence above the average. Benin, Burkina Faso, Mali and Niger make up the second club; they have a level of convergence which is below the average.

ECOWAS countries have different economic situations. In this respect, a relevant economic and monetary union requires some degree of homogeneity of member country economies. In this context, countries should harmonize their legal, accounting, tax, regulatory and statistical frameworks, as well as their banking and financial regulations. The empirical work of Dramani (2013) on the interaction between fiscal and monetary policies is consistent with the assertions listed above.

Indeed, using a multi-country model in the WAEMU and CEMAC zones, Dramani (2013) was able to demonstrate the sensitivity of the two areas to macroeconomic shocks. Thus, these results are in line with the implementation of fiscal federalism in the two areas to counteract asymmetric shocks arising from the difference between the countries composing each zone.

Using convergence models, L. Dramani (2007) shows that nominal convergence has led to real convergence in the franc zone, although sometimes conditionally. He therefore concluded that the convergence criteria and the institutions established in this area have been effective. Like other authors, he also highlights the existence of convergence clubs and states that the integration process is much more advanced in the UEMOA zone than in the CEMAC zone. For him, the process of real convergence also implies some degree of heterogeneity according to the zones. In addition, his results demonstrate the impossibility of having a common convergence path in the franc zone. He considers that the official development assistance, the stock of human capital, inflation and investment rates are the driving variables for the promotion of convergence in the franc zone.

In analysing income convergence in ECOWAS countries, M. Jalloh (2012) used the two most common approaches – sigma and beta convergence. His results on the sigma convergence show a lack of convergence of per capita income in ECOWAS countries over the 1990-2009 period. In contrast, the results of the beta convergence approach reveal a convergence rate of ECOWAS country incomes of about 17 % per year over the same study period. However, any cyclical shock causing an imbalance may require a long time before returning to the regular equilibrium level. M. Jalloh (2012) shows that WAMZ countries are more efficient (with 3.9 % of average annual growth rate) than WAEMU countries (3.2 %) over the 1990-20099 period. For him, ECOWAS countries still have a long way to go to be able to meet the convergence criteria.

[9] This result substantiates that of J. Lama (2011), which states that WAMZ countries show an average rate of economic growth which is significantly higher than for UEMOA countries over the 2000-2009 period.

R.D. Korsu and M.B.O. Ndiaye (2013) conducted unit root and cointegration tests (Johansen method) to study the nominal convergence – on quarterly data from 2000 to 2010 – and the real convergence – on annual data from 1975 to 2010. The authors reveal the existence of nominal convergence for currency reserves among countries of WAMZ (with or without Cape Verde) and of ECOWAS. In contrast, there is no nominal convergence for the other selected variables in the study, namely the interest rate, the exchange rate, the fiscal deficit and inflation. The results also show that real convergence is de rigueur in countries of WAMZ (with or without Cape Verde) and of ECOWAS. However, no WAMZ country is in convergence – either in nominal or real terms – with UEMOA, except for Cape Verde which is in nominal convergence with UEMOA, but only in terms of the exchange rate.

Conclusion: The findings of the various studies are generally insufficient for the achievement of a credible economic and monetary union within ECOWAS. Strong political commitment by member countries is essential to strengthen the economic convergence process, which is the only guarantee for a relevant union.

II.2. Progress made in terms of respecting the convergence criteria within ECOWAS

Despite the good will expressed at Summits and ministerial conferences, as well as the achievement of economic growth rates exceeding 5 % in the ECOWAS region, during the period between 2005 and 2012, little progress has been observed in terms of compliance with convergence criteria. Thus, the meeting of the ECOWAS Technical Committee on Macroeconomic Policy, held in Abidjan in 2013, reported that compliance by States with the criteria declined in 2012, with the exception of criteria relating to the wage bill/real interest rate ratio. Overall, then, **results in macroeconomic convergence within the sub-region are unsatisfactory.**

Over the 2000-2009 period, UEMOA performed better than WAMZ in terms of compliance with the convergence criteria (J. Lama, 2011). During the 2008-2013 period, Niger, Nigeria and Senegal met the greatest number of criteria (8 out of 11), while the Gambia, Ghana and Sierra Leone met the smallest numbers with only 4, 3, and 4 criteria, respectively.

Concerning the primary criteria, only six countries reached the target in terms of budget deficit in 2012. Although grants were included, performance for this indicator did not improve. It should be noted that ***budget deficits*** continue in the trend started in 2009 when public authorities were mostly requested to stem the effects of the food crisis first and, to a lesser extent, those of the international financial crisis. But the persistence of public deficits stems from the priority States give to meeting infrastructure needs and social demands, particularly the response to the MDGs. For the sub-region's leading economy – Nigeria – non-compliance with the public deficit criterion in 2010 is explained by economic pressures and various socioeconomic issues facing the country (W. Olayiwola, 2011). The budget deficit is regarded as one of the reasons for the continued pressure on the price level (W. Olayiwola, 2011)[10].

In relation to ***price trends***, eight countries in the region met the standard in 2012, one less than in 2011.

With regard to ***foreign exchange reserves***, only Nigeria met the standard of six months imports in 2012 against ten countries in 2011. ***Budget deficit financing by the Central Bank*** is the only primary criterion that improved ***compared to 2011***. ***Indeed, fourteen countries met this criterion*** in 2012 against thirteen in 2011. With regard to individual country performances, it appears that ***no country has met all the primary criteria in 2012, compared to four countries a year earlier***. Only three countries, namely, ***Guinea Bissau, Niger and Nigeria met three of the four criteria. It is important to note that WAEMU countries show more inclination to comply with the primary convergence criteria.***

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[10] For W. Olayiwola (2011), the Central Bank of Nigeria (CBN) usually finances the budget deficit and the proportion of the deficit financed by the CBN has more than doubled over the years, increasing from 25.4% in 1987 to 67.9% in 1994 (p. 10).

With regard to the secondary criteria, the best performance relate to public debt, the ***stability of the nominal exchange rate*** and the ***real interest rate***. In contrast, countries face difficulties in relation to the ***tax ratio*** and the level of ***wage bill***.

Table 5. Number of countries complying with the convergence criteria

	2008	2009	2010	2011	2012*	2013**
	Primary criteria					
Budget deficit	10	6	7	8	6	6
Inflation	1	11	10	9	8	10
Foreign exchange reserves	1	9	10	10	1	9
Central Bank financing	13	12	12	13	14	15
	Secondary criteria					
Domestic arrears	7	9	9	9	10	10
Fiscal revenues	1	2	2	3	2	4
Wage bill	7	6	4	3	3	4
Investments on internal resources	8	7	7	7	8	8
Real interest rate	4	13	12	11	12	10
Public debt	12	12	14	14	14	14
Nominal exchange rate	14	11	13	13	14	14

** Estimates ** Projections,* ***Source* :** *WAMA, Central Banks*

Table 6. *Primary criteria compliance levels by country

	2008	2009	2010	2011	2012 *	2013 **
			UEMOA			
BENIN	2	3	4	4	2	4
BURKINA FASO	1	3	3	4	2	3
IVORY COAST	2	4	4	3	2	3
GUINEA BISSAU	1	4	4	3	3	4
MALI	2	3	4	3	2	3
NIGER	2	3	4	4	3	4
SENEGAL	2	3	3	3	2	3
TOGO	2	4	4	4	2	3
			WAMZ + Cape Verde			
CAPE VERDE	2	2	2	2	2	2
GAMBIA	2	2	3	2	2	2
GHANA	0	1	1	1	0	1
GUINEA	2	1	0	2	1	1
LIBERIA	2	2	1	2	1	1
NIGERIA	3	2	2	2	3	3
SIERRA LEONE	1	1	0	1	1	2
Number of countries which have complied with all primary criteria	**0**	**3**	**6**	**4**	**0**	**3**

Source *: WAEMU, 2013.*

Table 7 in Annex 1 assesses compliance with the various criteria by each ECOWAS member country over the 2008-2012 period (and a projection for 2013).

II.3. Progress in terms of institutional convergence within ECOWAS

The Report of the Twenty-Sixth Ordinary Meeting of the ECOWAS Committee for Economic and Monetary Affairs and the WAMA Operations and Administration Committee (held in Banjul, the Gambia, on 10 and 11 January 2014) stated, with regard to policy harmonization, that significant progress has been observed in the context of the implementation of harmonization programmes set out in the roadmap. The report therefore notes that there has been significant progress in relation to the harmonization of frameworks for monetary policy, legislation and supervision of banks and other financial institutions, accounting and reporting frameworks for banks and financial institutions, of balance of payments statistics and development of payment systems and capital account liberalization. However, efforts are still required for the interconnection of payment systems and the capital account liberalization.

Regarding public finances, common rules were adopted on public procurement and public debt management, although their application is yet to start. Furthermore, studies are also underway concerning public accounts and public finance statistics.

There has also been progress in the harmonization of national accounts (all countries having migrated to the SNA 1993 system and some have partially migrated to the new version SNA 2008), and price statistics (compilation of the Consumer Price Index in all Member States based on the COICOP system).

Conclusion: The integration process has not, as yet, enabled ECOWAS countries to achieve economic and social performance matching their enormous growth opportunities and potential. The results of the various empirical studies and a cursory look at the convergence criteria table have shown, in general, that the convergence process – both nominal and real – still has some way to go. The majority of Member States face enormous difficulties in meeting the convergence criteria, although progress has been recorded in the area of institutional convergence. This leads one naturally to question the relevance of the macroeconomic convergence process in the ECOWAS zone. This question, albeit legitimate, in the light of the poor results recorded, will be addressed in the next chapter.

Chapter D.
Critical assessment of the sub-regional integration process

The overall mixed results observed in ECOWAS member countries call for a critical assessment of the sub-regional integration process. The relevance and the limitations of the convergence process will be discussed in a first section. This will permit, in a second section, the formulation of policy recommendations for the effective implementation of the West African integration process.

Section I. Relevance and limitations of macroeconomic convergence

We will first analyse the relevance of the principle of macroeconomic convergence and then present the limitations of macroeconomic convergence.

I.1. Analysis of the relevance of the macroeconomic convergence principle

The ultimate goal, in the ECOWAS region, is to create a monetary union within ECOWAS. However, an incremental approach was adopted, which initially includes, the establishment of a second monetary union (a common currency and a single central bank) by the West African Monetary Zone (WAMZ) and secondly, when a number of conditions have been met, the next step will be to merge the WAMZ and the West African Economic and Monetary Union (UEMOA). The current target dates for achieving the two steps were 2015 and 2020.

The process leading to the creation of a regional monetary union in the ECOWAS zone is thus underway, in parallel with that of entrenching trade or real sectoral integration. The first integration process seeks to strengthen the second, while the second process helps, in return, to justify and amplify the benefits of the first one, according to the principle of optimum currency areas. The process therefore presupposes another intensive form of institutional and intra-regional cooperation in the economic and financial sectors. This justifies the adoption of macroeconomic convergence programmes.

Macroeconomic convergence appears to be inevitable in preparing for broader regional and monetary integration. It is relevant for a number of reasons:

- inflationary pressures caused by unsustainable fiscal deficits and by monetary expansion can lead to unbearable current account deficits, which in turn may ultimately compromise trade liberalization and hinder regional exchange rate stability;
- macroeconomic instability, which results in an unhealthy financial sector and difficulties in foreign debt, weakens capacity to face structural challenges and to promote growth;
- a country with a very high current account deficit will require a greater balancing effort from the other member countries – because of the principle of solidarity – to maintain stable regional macroeconomic aggregates, in particular, the exchange rate. This may lead to protests against the country (or countries) with imbalance(s), and thus to political disagreements.
- Compliance with the convergence criteria is not in itself an objective. Convergence is primarily intended for the ECOWAS Commission, to create conditions for balanced, sustainable and job-creating growth. The criteria actually encourage member countries to adopt a culture of stability. In that sense, pursuing convergence further constitutes a factor of credibility for the policy implemented by national authorities; it is an affirmation of their choices concerning policy integration. It lays the foundation for a transition

to the monetary union, which itself is considered as a growth factor.

- In the design currently used by ECOWAS, macroeconomic convergence is considered a ***prerequisite*** for the feasibility, stability and viability of the monetary zone to be established in 2020. This option, referred to as "***exogenous***", for an optimum currency area, should thus lead Member States to seek convergence as from now and to continue hereafter, rather than to converge only they have effectively joined a monetary union[11].

- In addition, an economic growth policy calls for sound public finances. Excessive and permanent public deficits increase the risk factors and the interest rate, thereby reducing private investment. The consequence of excessive public debt is twofold: on the one hand, the gap between public needs and the limited amount of available savings pushes interest rates upward and, on the other hand, households anticipate an increase in taxes to finance this debt, and this lowers consumption and investment. These crowding-out effects of

[11] The option chosen by proponents of an "endogenous" optimum currency area and who posit that countries which are members of the same currency area increase trade, and their cycles get closer; which justifies *a posteriori* monetary integration.

domestic demand will be particularly great if the public deficit is inflated by debt servicing and the financing of current spending which, by definition, are not future-oriented.

- By contrast, if balance is maintained in public finances, the monetary policy may be eased without threatening monetary stability. Easing will cause an immediate decline in interest rates in the short term, which is very generally followed by the decline in long-term interest rates:
    - The decline in interest rates has a positive effect on growth and employment;
    - The investment payback period is reduced, the cost of storage decreases and volume increases;
    - The cost of financing the work-force decreases;
    - Household consumption and investment in real estate increase.

I.2. Criticism of the convergence criteria

In contrast to the so-called "monetarist" view of the monetary integration process, proponents of the "economist" view hold that monetary integration leads to convergence of economies and that it is not justified to make the latter a precondition. The example of UEMOA countries is enriching in that regard. In fact, this Union was originally established as a monetary union, well before consideration of concerns relating to macroeconomic convergence. Nowadays, UEMOA is recognized as one of the most economically stable regions.

Moreover, the relevance of compliance with the criteria is challenged on many levels. The public deficit standard is particularly controversial. An absolute limit, namely a positive basic fiscal balance for UEMOA, cannot, by definition, take into account cyclical fluctuations which specifically affect the budget balance through automatic stabilizers. Strict adherence to this criterion leads, in times of recession, the national authorities to implement restrictive fiscal policies, which reinforces the cycle. For example, the limitation of the deficit would not have helped Member States to face the food, financial and economic crises in the second half of year 2000. It is therefore appropriate to question the consistency of deficit ceiling with the structural realities of economies. ECOWAS, by choosing a less restrictive budget deficit ceiling (3 % including grants, instead of a positive base balance) has partially integrated this issue. It is necessary, in addition, to take into account the structure of the deficit itself: is the deficit caused by an increase in operating expenditures or in capital spending?

Moreover, the dichotomy between growth and inflation has been discussed for long in economic literature. The principle that strong and sustainable growth is unattainable without a relatively high inflation seems to be widespread, particularly among neo-Keynesians. Thus, fixing the maximum ceiling for inflation (3 % for UEMOA countries) could limit member country growth performances. In countries like Ghana, Liberia and Sierra Leone, the good growth trends observed during the last decade may be stopped as a result of strict compliance with the inflation constraint. That is why ECOWAS adopted, with respect to the inflation target, a rate of 10 % at the end of the adjustment period for the Second Monetary Zone countries, and 5 % for ECOWAS as a whole, when the two areas will be merged.

These results corroborate those obtained in the past by the franc zone countries. Indeed, in assessing the convergence status in the franc zone, the Report on the Franc Zone (2006) described the results as mixed. This Report affirmed the existence of a strong dispersion in achievements and instability in the convergence process, despite a revision of the criteria in 2002. The Report also mentioned that reliability was lacking in the instruments used for assessing convergence.

For the specific case of UEMOA countries, this situation indicates the extent of the constraints with regard to internal and external factors that limit the acceleration of the convergence process. There are several real problems relating particularly to inadequate fiscal and social harmonization and to the regulation of asymmetric shocks.

Under a flexible exchange regime, reducing wages, social protection (which only formal sector workers benefit from), local taxes, social security contributions… is not very attractive since exchange rate fluctuations may cancel the effect of these measures. However, in a single currency context, things are different. On the one hand, changes in the cost of labour or in regulations can have permanent effects on competitiveness; and, on the other hand, with the removal of the exchange rate risks, mobility of capital and skilled labour becomes increases. This makes it quite tempting for countries to take more or less aggressive measures to attract business, since these measures are much more effective than those taken under flexible exchange rates.

UEMOA is characterized by the coexistence of a common monetary policy and eight independent fiscal policies. This raises the issue of regulating economic activity. Indeed, within UEMOA, monetary policy interventions (changing interest or exchange rates) affect all eight countries of the area without exception. Monetary policy can then play an economic role only in case of symmetric (or common) shocks[12], that is, those which are experienced simultaneously and in equal proportions by all UEMOA countries. The regulation of asymmetric

[12] A shock is thus characterized by a common impulsion and by an adjacent spread.

shocks[13] – those affecting some countries or all countries in different proportions – must therefore explore other avenues. The current configuration of UEMOA will very likely become the configuration of the future union of the ECOWAS zone. The alternative avenues are those presented by R. Mundell (1961): labour market flexibility and fiscal adjustment.

The first solution is currently inoperative because labour mobility within the West African sub-region is relatively reduced, although freedom of movement of persons is ensured. The high level of unemployment prevailing in countries of the region further compounds the issue.

The second solution – fiscal adjustment – is favoured by UEMOA member countries. The regulation of economic activity, particularly combatting asymmetric shocks, must of necessity involve fiscal policies (since monetary and exchange rate policies are managed by the BCEAO). But the constraints set by the CSGSP leave only very little flexibility to States.

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[13] An asymmetric shock corresponds either to a specific impulsion, or a different response by Member States to a common impulsion.

I.3. Difficulties posed by divergence in convergence criteria of ECOWAS, WAMZ and UEMOA

Compliance with ECOWAS convergence criteria has become more difficult for member countries because of differences in the benchmarks selected by the various institutions (ECOWAS, UEMOA and WAMZ).

J. Lama (2011)[14] observes that: (i) the indicators selected as convergence criteria are not always the same for the three systems of convergence; (ii) certain indicators selected in common in the three systems as convergence criteria have been classified differently as primary or secondary criteria, and do not always have the same values, and that their convergence horizons are different.

Thus, WAMZ selected a target of 10 % maximum inflation rate, while ECOWAS chose 5 % and UEMOA chose 3 %. Since the initial objective was to establish the WAMZ prior to the ECOWAS single currency, member countries have tended to focus more on the 10 % than the 5 % target. Therefore, almost all of them ignore the 5 % target set by ECOWAS, in contrast to UEMOA member countries.

In fact, Tarawalie, Sissoho, Conte and Ahortor1 (2012) empirically estimated inflation threshold levels of WAMZ, using the method of conditional least squares. Their study also identified the determinants of growth in

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[14] J. Lama, op cit

WAMZ. The empirical analysis is based on annual data from 1970-2010 for Ghana, Nigeria and Sierra Leone, and from 1 980-2010 for the Gambia and Guinea. The results have shown that there is a long-term statistically significant negative relationship between inflation and economic growth for countries of WAMZ. Moreover, the empirical results strongly suggest the existence of an inflation threshold for WAMZ countries, beyond which inflation has a negative effect on growth. The results revealed an inflation rate of 9 % as optimal inflation rate for WAMZ countries. They also showed that the threshold inflation rate respects the WAMZ convergence criterion of an inflation rate not exceeding 10 per cent. They recommend maintaining the inflation rate at least at the threshold level in member countries, as it can help support sustainable growth.

The converse situation is observed with regard to the tax ration, with a target of at least 20 % for ECOWAS and WAMZ and only 17 % for WAEMU. However, only Cape Verde, Liberia, Senegal and Nigeria are able to meet the target 20 % set by ECOWAS, which indicates structural difficulties for most countries, whether or not they are member of WAMZ or UEMOA.

The difficulty of making UEMOA and WAMZ to converge is rooted in the fact that UEMOA is already a monetary union, while WAMZ is still seeking to become one, as well as in the difference in preferences of the two areas. The Central Bank of West Africa, which covers

UEMOA countries, has the sole objective of ensuring price stability, while its counterparts in the WAMZ member countries attach great importance to growth and employment in their scale of priorities. This divergence makes it difficult to reconcile their positions on the optimal inflation level. It is however possible to reduce the gap between the two areas (if UEMOA accepts higher inflation and WAMZ targets lower inflation). In the near future, harmonization would therefore be possible only on these terms, without going to the extent of standardizing inflation thresholds. The current reflection on its convergence criteria which is underway within UEMOA offers the opportunity to initiate such a move to reduce the disparities in inflation targets between the two zones.

I.4. Limitations of comparability between ECOWAS countries

Given the lack of harmonization of policies implemented and of the various institutional, accounting and statistical frameworks, comparison of compliance with convergence criteria has limitations. Indeed, if at the level of UEMOA, the convergence framework is accompanied by measures to harmonize the legal, accounting and statistical framework of public finances and taxation, the same cannot be said for WAMZ countries. Efforts to harmonize national accounts must also be made by ECOWAS to permit greater comparability of macroeconomic aggregates, as is the case in UEMOA countries.

That is the very essence of the programmes in roadmap for a single currency.

Section II. Policy recommendations to foster sub-regional integration

An overview of progress in sub-regional integration has highlighted the shortcomings of the integration process: characteristic weakness of intra-ECOWAS trade and significant difficulties for most of the member countries, concerning compliance with the convergence criteria. In this respect, recommendations relating to intra-ECOWAS trade, convergence and macroeconomic policies have been formulated to strengthen sub-regional integration.

II. 1. Recommendations to Boost the Volume of Intra-ECOWAS Trade

The conclusion relating to studies on intra-ECOWAS trade made it possible to highlight the factors accounting for the weakness of sub-regional trade integration. They are basically the lack of quality infrastructure – road and rail – and low level of industrialization. The growth of intra-ECOWAS trade necessarily requires industrial development – which is synonymous with diversification and complementarity of domestic production15 – as well as the realization of major community infrastructure projects. Trade integration therefore requires enormous financial resources in a context of scarcity of external private funding and relatively stringent conditionalities imposed by public and international donors.

It is therefore important to encourage the preparation of a very consistent community budget to finance the industrial and agricultural sectors, which are a means of developing trade and a source of economic growth. The budget also symbolizes solidarity between the future Member States16. Naturally, existing mechanisms and structures with proven effectiveness should be maintained and correlated with the following proposals.

Three sources of funding are possible to supplement the budget:

- Contributions from Member States, which will be differentiated according to their economic, trade and demographic weighting (the weighting coefficients will be set after consultation among experts from various member countries);

[15] It should be noted, as J. Lama (2011) states, that UEMOA zone production structures are on average slightly more diversified than those of WAMZ and Cape Verde.

[16] This community solidarity sufficiently demonstrates the topical nature of J. M. Keynes' statement on the issue of transfers - mutual assistance between creditor and debtor countries.

- proceeds from the CET;
- Issue of community bonds in the financial markets of the Union and in other countries or areas.

The community budget should be primarily intended to finance the economic and social development of all ECOWAS countries. To this end, the budget should be divided into three parts of unequal importance:

- A major portion (60 % of the budget) to fund community infrastructure – agricultural (to ensure food self-sufficiency), educational including R & D, health and the military (as there can be no sustainable prosperity without peace and security);
- A significant portion (30 % of the budget) devoted to the promotion of the secondary and tertiary sectors through funding granted to SMEs/SMIs in the ECOWAS zone. This fund is a kind of risk capital and should be supplemented by private partner holdings: it is a mixed capital fund (50 % public [ECOWAS] and 50 % private);
- A relatively significant portion (10 % of the budget) to cover the operating costs of community institutions.

This proposal reflects some aspects of the concept of "developmental regionalism". According to UNCTAD (2013), the concept covers several elements such as trade, industry, agriculture, research and development, investment in transport and infrastructure. African countries should enhance cooperation among themselves in each of these areas to ensure economic development and social harmony.

II. 2. Recommendations for Effective Implementation of Macroeconomic Policies and Convergence

Defining and respecting macroeconomic convergence rules remain essential to strengthen economic and monetary integration. However, most ECOWAS countries are unable to meet convergence criteria in a sustainable way. The first reason is the ambivalence between countercyclical fiscal policy activism and respect for balance. The second reason is that growth ambitions often seem incompatible with the objectives of price stability. The third and final reason is linked to the lack of responsibility on the part of Member States that are not yet subject to sanction measures in case of non-compliance with the criteria.

For discipline to be instilled among ECOWAS Member States17, a system of incentives and disincentives

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[17] W. Olayiwola (2011) considers that the Nigerian law on fiscal responsibility (the Fiscal Responsibility Act) is a good national policy since it complements regional arrangements in terms of rates and objectives. According to him, it would be good for other countries to draw inspiration from it.

should be instituted. One possible incentive would be to grant financing favours to prudent States. Specifically, the aim is to reward prudent countries by granting them community financing facilities. Disincentives will include inflicting financial sanctions to deter countries lagging behind in terms of compliance with the convergence criteria. Such a system of incentives – to enable the proper application of the convergence criteria – must be defined jointly by the Member States18.

States could also follow the example of Nigeria (with its "Responsibility Act") and have their parliaments vote in binding provisions such as the irrevocable fixing of a maximum level of budget deficit. For its part, ECOWAS could establish ***a proactive monitoring mechanism similar to that of UEMOA,*** which will be applied before parliaments vote the budget, while drawing the attention of parliaments to the surveillance reports. It should also ***make more room, during the Conference of Heads of State and Government,*** for discussions on convergence.

Countries in difficulty should be able to benefit from ECOWAS ***support funds*** to help them overcome economic shocks. For their part, Member States should be encouraged to use ***Public-Private Partnerships*** to reduce

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[18] This proposal addresses the concern of J. Lama (2011). Indeed, noting that the UEMOA sanctions mechanism was inoperable and is absent from ECOWAS and WAMZ, J. Lama (2011) recommended that an appropriate sanctions mechanism be considered to enable States to consolidate their gains

the burden on public spending and thus achieve the objectives in terms of public debt and budget deficit.

Extensive studies should also be conducted in order to understand, beyond simple observation, why Member States face structural difficulties in meeting certain criteria such as the budget deficit, inflation (for WAMZ countries) or the tax ratio. It would then be possible to identify remedies and/or possibly consider revising the levels targeted by ECOWAS, if it turns out that they are difficult to reach in the time frame set for convergence or are incompatible with the will of States to accelerate their growth and economic emergence, as many of them aspire to do in the coming years. In fact, ECOWAS has already conducted studies on domestic resource mobilization and the taxation system. There is need to conduct further studies, targeting the different convergence criteria, such as the comprehensive analysis of the determinants of inflation in the WAMZ countries, building in particular on the approach indicated in Chart 4 below.

Diaw A. and Sall A. K. (2009) conducted such a study, seeking to understand the factors that can shed light on inflation and the desirability of targeting it within ECOWAS. Using the two-step error correction method of Engle and Granger on a mixed model[19], the study shows that the structural component is superior to the monetary component. Apart from the increase in import prices, the growth in money supply and GDP, interest rates and the

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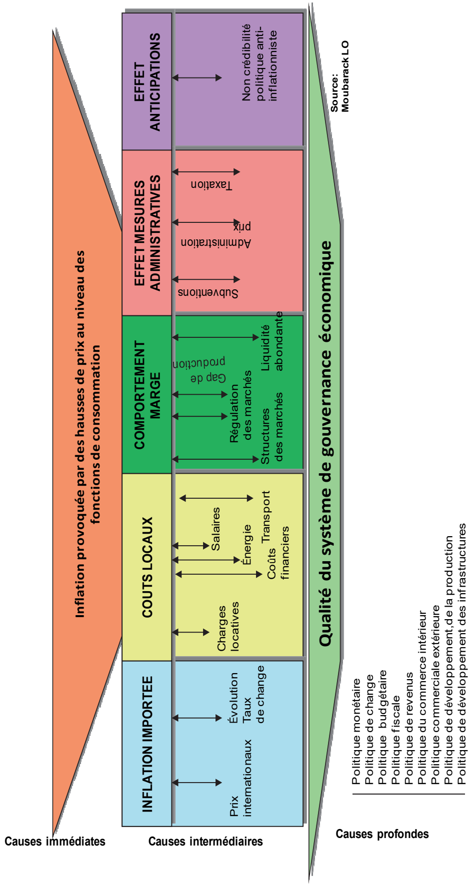
[19] Monetarist and structuralist.

output gap, the study shows that inflation expectations appear to be significant and have a positive effect on inflation in all ECOWAS countries in both the short and long term. In addition, it was generally found that the convergence of inflation to its long-term equilibrium level is slow and oscillatory. The anti-inflationary policy recommendations are intended to result in a reduction in the effects of imported products, a contraction in aggregate demand, control of the quantity of money and the interest rate and above all in providing an opportunity to adopt an inflation targeting policy within ECOWAS. This strategy will help to contain the inflationary expectations of economic operators and to cope with external and internal shocks. It is also essential to ***unify the convergence criteria,*** at the latest by the end of the first phase of convergence scheduled for December 2016, in order to better prepare the entry into force of the ECOWAS single currency planned in 2020. Difficulties would emerge, undoubtedly with regard to certain criteria such as inflation, since the orthodoxy advocated by UEMOA is inconsistent with the expansionist choice of WAMZ. The lack of consensus among economists on the optimal level of the inflation target (some neo-Keynesians suggest an inflation target of 8 to 9 %) could allow ECOWAS to opt for some degree of flexibility and decoupling of the targets set by the euro area.

Moreover, it would be necessary to harmonise tax rates and social protection rules to avoid any harmful fiscal and social disorder in the future ECOWAS monetary union.

Chart 4. Strategic diagnosis of inflation



Source : Moubarack LO, « Les déterminants de l'inflation en Mauritanie » (Determinants of inflation in Mauritania), UNDP/MAE, Mauritania, December 2009

Besides, to further promote the convergence of these monetary and financial variables, ECOWAS should ensure to better support the integration process, by accelerating the institutional reforms relating to the monetary, financial and statistical policies. It is about to:

- ***accelerate the harmonization process of the monetary policy frameworks***, through a comparative analysis of practices concerning the definition and implementation of the monetary policy; and an identification of the key structural constraints that could affect the effectiveness of the monetary policy within ECOWAS;
- ***improve the modernization of payment systems***. It should be noted that considerable progress has been made in this area, particularly in the UEMOA area, in Ghana and in Nigeria. However, some countries (the Gambia, Guinea, Liberia and Sierra Leone) continue to experience significant delays;
- ***define the modalities for the harmonization of regulations and the supervision of banks and other financial institutions***. To do this, it is appropriate to make a comparative analysis of the legal and regulatory frameworks, the institutional arrangements, the structures, the systems and the implementation of international standards. It is also important to identify the institutional and organizational constraints that affect the effectiveness of the supervision of banks and oth-

er financial institutions within ECOWAS. At this level, the UEMOA countries seem to be far ahead;

- ***strengthen financial market integration within ECOWAS***, by starting to identify the ways and means that can lead to the integration of the financial markets in the sub-region. It is also important to put in place, as soon as possible, the Regional Council of Financial Markets;
- ***accelerate the harmonization of statistical tools and the implementation of the regional statistical policy***. In particular, emphasis should be placed on the development of a regional methodological guide in accordance with the sixth edition of the IMF Manual. This harmonization is especially all the more salutary since the credibility of the multilateral surveillance mechanism is somewhat marred by the differences in how to identify, compile and present inflation and GDP in some ECOWAS countries (J. Lama, 2011)[20].
- ***finance the activities of WAMA and WAMI with resources from community levies***.

[20] By considering that the analysis of the current convergence criteria provides more cyclical than structural information, J. Lama (2011) proposes to complete them by new ones such as the structural inflation and the cyclically adjusted balance.

Finally, ECOWAS should foster not only nominal convergence, but also ***structural convergence*** among its Member States, by identifying criteria relating to growth, employment, development of human capital, poverty reduction and intra-regional trade, among others. A working group could be set up for this purpose.

General conclusion

Ultimately, the macroeconomic convergence project is only progressing moderately and there is no guarantee that countries will be able to achieve the set targets by 2016, the deadline selected for convergence. With a little more political will, it might undoubtedly be possible to do much better in complying with the convergence criteria than at moment, since several of the indicators are controlled by governments (such as the level of public debt, advances from the central bank and budget allocations for investment or wage bill). Other indicators, such as the budget deficit, tax ratio, real interest rates and inflation, can also be better controlled through innovative actions in the global governance of economic, monetary and financial affairs. Lastly, institutional measures for harmonizing policies depend purely on the willingness of Member States which, in all responsibility, adopted them. There is no reason for any delay in their implementation. This means that, in the current situation, there is no absolute obstacle to the attainment of the convergence objectives. And the credibility of ECOWAS would require the member countries, especially those that are more economically developed, to strive to fulfil the commitments made at the ministerial conferences and meetings, including by aligning with the strategy defined in the roadmap towards the monetary Union in 2020.

The relevance of the levels set for the convergence indicators nonetheless remains an issue at the theoretical and practical levels. The discrepancy between State commitments and actions is partially accounted for by the gap between their economic emergence ambitions and the monetarist and orthodox logic that seems to drive the convergence process. In this regard, economists are far from having shared views on its absolute necessity in view of the creation of a single currency.

ECOWAS must clearly initiate, very quickly, an internal debate, at the highest level of its decision-making bodies, in order to clarify its strategic choices, and to decide to maintain as such the levels selected for the criteria, by harmonizing them between ECOWAS, WAMZ and UEMOA, or to adapt them to the real capacities and needs of States, by choosing to loosen some of them like the level of inflation, tax ratio, budget deficit or foreign exchange reserves. The survival of the ECOWAS project on a single monetary zone is at stake. To this end, the holding, on 20 and 21 February 2014, of the inaugural meeting of the Presidential Task Force (set up by ECOWAS, to assist the Presidents of Niger and Ghana to accelerate the Monetary Cooperation Programme) helped to clearly state the issue and outline the following major recommendations for the Heads of State:

- reconsider the idea of a two-staged monetary union and aim directly at establishing the ECOWAS monetary zone in 2020, bypassing the creation of WAMZ;
- start the currency area in 2020 with the ECOWAS member countries that meet all four primary convergence criteria before 2020, while the other countries join as and when they meet all the primary criteria;
- streamline the convergence criteria, so as to reduce or simplify them.

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Annexes

<u>Annex 1</u>*:* Assessment of compliance with ECOWAS convergence criteria by ECOWAS member countries between 2008 and 2013

Table 7. Assessment of compliance with ECOWAS convergence criteria by ECOWAS member countries between 2008 and 2013

(Sources: WAMA, ECOWAS Monetary Cooperation Programme, Annual Reports from 2008 to 2012 and first half of 2013)

BENIN		2008	2009	2010	2011	2012*	2013*
Primary criteria	Budget deficit	Yes	No	Yes	Yes	Yes	Yes
	Inflation	No	Yes	Yes	Yes	No	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Secon-dary criteria	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	No
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	Yes	Yes	No	Yes	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	Yes	No	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

BURKINA FASO		2008	2009	2010	2011	2012*	2013**
Primary criteria	Budget deficit	No	No	No	Yes	No	No
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Secondary criteria	Domestic arrears	Yes	No	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	Yes	No	No
	Wage bill	No	No	No	Yes	No	No
	Investments on internal resources	Yes	Yes	Yes	Yes	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	Yes	No	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

CAPE VERDE		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	No	No	No	No	No
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
	Domestic arrears	No	No	No	No	No	No
Secondary criteria	Fiscal revenues	Yes	Yes	Yes	Yes	Yes	Yes
	Wage bill	Yes	Yes	Yes	Yes	Yes	Yes
	Investments on internal resources	No	No	No	No	No	No
	Positive Real Interest Rates	Yes	No	No	No	No	No
	Stability of Nominal Exchange Rate	No	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes
	Budget deficit		Yes	Yes	Yes	No	No

** Estimates ** Projections*

IVORY COAST		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	Yes	Yes	No	No	No
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Seconda-ry criteria	Domestic arrears	No	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	No
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	No	No	No	No	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	No	Yes	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

GAMBIA		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	Yes	Yes	No	No	No
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	No	No	No	No	Yes	Yes
	Domestic arrears	No	No	Yes	Yes	No	No
Secondary criteria	Fiscal revenues	NA	NA	NA	NA	NA	NA
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	Yes	Yes	No	No	No	No
	Positive Real Interest Rates	No	No	No	No	No	No
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	No	Yes	Yes	Yes	Yes
	Budget deficit	Yes	No	Yes	No	Yes	Yes

** Estimates ** Projections*

GHANA		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	No	No	No	Yes	No	No
	Inflation	No	No	No	No	No	No
	Central Bank financing	No	Yes	Yes	No	No	Yes
	Domestic arrears	No	No	No	No	No	No
Secon-dary criteria	Fiscal revenues	No	Yes	Yes	Yes	Yes	No
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	No	No	No	No	No	No
	Positive Real Interest Rates	Yes	No	No	No	No	No
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	No	Yes	Yes	No	No
	Budget deficit	Yes	Yes	Yes	Yes	Yes	Yes

** Estimations ** Projections*

GUINEA		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	No	No	Yes	No	No
	Inflation	No	Yes	No	No	No	No
	Central Bank financing	Yes	No	No	Yes	Yes	Yes
	Domestic arrears	No	No	No	No	No	No
Secondary criteria	Fiscal revenues	No	No	No	No	No	No
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	Yes	Yes	No	Yes	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	No	Yes	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	No	No	Yes	Yes
	Public debt	No	Yes	No	No	Yes	Yes
	Budget deficit	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

GUINEA BISSAU		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	No	Yes	Yes	Yes	Yes	Yes
	Inflation	No	Yes	Yes	No	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Secondary criteria	Domestic arrears	No	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	No
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	No	No	No	No	No	No
	Positive Real Interest Rates	No	Yes	Yes	Yes	Yes	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	No	No	No	Yes	Yes	Yes

** Estimations ** Projections*

LIBERIA		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	Yes	No	Yes	No	No
	Inflation	No	No	No	No	No	No
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
	Domestic arrears	No	No	No	No	No	No
Seconda-ry criteria	Fiscal revenues	NA	Yes	NA	NA	Yes	Yes
	Wage bill	No	Yes	Yes	Yes	Yes	Yes
	Investments on internal resources	Yes	No	No	No	No	No
	Positive Real Interest Rates	No	No	No	No	No	No
	Stability of Nominal Exchange Rate	No	No	No	No	No	No
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes
	Budget deficit	No	No	Yes	Yes	Yes	Yes

** Estimates ** Projections*

MALI		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	No	Yes	No	Yes	Yes
	Inflation	No	Yes	Yes	Yes	No	No
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Seconda-ry criteria	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	No
	Wage bill	No	Yes	Yes	No	No	No
	Investments on internal resources	Yes	Yes	Yes	Yes	No	No
	Positive Real Interest Rates	No	Yes	Yes	Yes	Yes	No
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

NIGER		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	No	Yes	Yes	Yes	Yes
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Seconda-ry criteria	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	Yes	No	No
	Wage bill	Yes	Yes	Yes	Yes	Yes	Yes
	Investments on internal resources	Yes	Yes	Yes	No	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	Yes	Yes	No
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

NIGERIA		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	No	No	No	Yes	Yes
	Inflation	No	No	No	No	No	No
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
Secondary criteria	Fiscal revenues	NA	NA	NA	NA	NA	NA
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	Yes	Yes	No	No	No	No
	Positive Real Interest Rates	Yes	Yes	Yes	Yes	No	No
	Stability of Nominal Exchange Rate	No	No	No	No	No	No
	Public debt	Yes	No	Yes	Yes	Yes	Yes
	Budget deficit	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

SENEGAL		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	No	No	No	No	No	No
	Inflation	Yes	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Seconda-ry criteria	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	Yes
	Wage bill	Yes	Yes	Yes	Yes	Yes	Yes
	Investments on internal resources	Yes	Yes	Yes	Yes	Yes	Yes
	Positive Real Interest Rates	Yes	Yes	Yes	Yes	Yes	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

SIERRA LEONE		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	No	Yes	No	No	No	No
	Inflation	No	No	No	No	No	Yes
	Central Bank financing	Yes	No	No	Yes	Yes	Yes
	Domestic arrears	No	No	No	No	No	No
Secondary criteria	Fiscal revenues	NA	NA	NA	NA	NA	Yes
	Wage bill	No	No	No	No	No	No
	Investments on internal resources	No	No	No	No	No	No
	Positive Real Interest Rates	No	No	Yes	Yes	Yes	Yes
	Stability of Nominal Exchange Rate	No	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	No	No	No	Yes	Yes
	Budget deficit	Yes	Yes	Yes	Yes	Yes	Yes

** Estimates ** Projections*

TOGO		2008	2009	2010	2011	2012 *	2013 **
Primary criteria	Budget deficit	Yes	Yes	Yes	Yes	No	No
	Inflation	No	Yes	Yes	Yes	Yes	Yes
	Central Bank financing	Yes	Yes	Yes	Yes	Yes	Yes
Seconda-ry criteria	Domestic arrears	Yes	Yes	Yes	Yes	Yes	Yes
	Fiscal revenues	No	No	No	No	No	No
	Wage bill	Yes	No	Yes	No	No	Yes
	Investments on internal resources	No	No	No	Yes	Yes	Yes
	Positive Real Interest Rates	No	Yes	Yes	Yes	Yes	Yes
	Stability of Nominal Exchange Rate	Yes	Yes	Yes	Yes	Yes	Yes
	Public debt	Yes	Yes	Yes	Yes	Yes	Yes

** Estimate ** Projections*

Annex 2. Revised Roadmap for the ECOWAS Single Currency Programme, 2009-2020 (Source: WAMA)

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
1	Conduct of multilateral surveillance (ECOWAS single currency programme)	On-going process	On-going process	ECOWAS, WAMA, WAMI, UEMOA Commission	ECOWAS Commission	
1a	Effective establishment and operationalization of National Coordinating Committees (NCCs)	2009	2012	ECOWAS Commission, Member States	ECOWAS Commission	Established in all Member States except Cape Verde
1b	Review and harmonization of convergence criteria	2009 Q2-Q4	Achieved 2011 Q4	ECOWAS, WAMA, central banks, WAMI, UEMOA Commission; Ministries of Finance	ECOWAS Commission	

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
1c	Adoption of harmonized convergence criteria	2010 Q2	2012	Each regional institution, Ministries of Finance, Central Banks	ECOWAS Commission	Shall be adopted at the next summit in 2012
2	**Harmonization:**					
2a	Statistics	Before 2014 Q4	Before 2014 Q4	ECOWAS Commission, WAMA, WAMI, UEMOA Commission, AFRISTAT	ECOWAS Commission	
2c	Legal, accounting and statistical frameworks of public finance	Before 2014 Q4	Before 2014 Q4	ECOWAS Commission, WAMA, WAMI, UEMOA Commission, Ministries of Finance		
3	Harmonization of:					
3a	the regulatory and supervisory framework for Banking and other Financial Institutions	2009 Q2 – 2011 Q2	2013 Q2	WAMA, WAMI, Central Banks, WABA, Banking Commission of UEMOA, Securities and Exchange Commissions, Insurance Commissions	WAMA	

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
3b	the regulations governing current and capital account transactions within and outside the zone	2009 Q2 – 2011 Q2	2013 Q2	WAMA, WAMI, All Central Banks, WABA, UEMOA Commission	WAMA	
3c	accounting and financial reporting for banks	2010 Q1 – 2013 Q4	2013 Q4	WAMA, WAMI, central banks, ABAO, UEMOA Banking Commission	WAMA	
3d	monetary policy frameworks	2010 Q1 – 2013 Q4	2013 Q4	WAMI, WAMA, Central Banks	WAMA	
3e	payment system infrastructure (wholesale and retail payments) for cross-border transactions within ECOWAS	2010 Q1 – 2013 Q4	2013 Q4	WAMI, WAMA, WABA, central banks, Ministries of Finance	WAMA	
4	Completion of payment system infrastructure in the Gambia, Guinea, Liberia and Sierra Leone	2009 – 2012 Q4	2012 Q4	WAMI, Central Banks	WAMI	The project was extended to Liberia in 2010

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
5	Removal of all tariff and non-tariff barriers to free movement of goods, persons and services within ECOWAS	On-going process	On-going process	ECOWAS Commission, WAMA, WAMI, UEMOA Commission, Member States	ECOWAS	
6	Stabilization of exchange rates	On-going but be finalised two (2) years before the launching of the ECOWAS single currency	2014 (WAMZ) 2018 (ECOWAS)	Central banks, WAMA, WAMI	WAMI WAMA	
7	Liberalization of capital accounts within ECOWAS	2011	2013	WAMI, WAMA, central banks	WAMI (for WAMZ) WAMA (for ECOWAS)	
8	Integration of Financial Market (Capital, Insurance, Banking, Pension/Social Security	On-going	On-going	ECOWAS Commission, WAMA, WAMI, UEMOA Commission, UEMOA Banking Commission, WABA, central banks,	ECOWAS Commission	

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
	Funds, etc)			CIMA (Inter-African Conference on Insurance Markets) CREPMF-UEMOA, Securities and Exchange Commissions, Insurance Commissions, CIPRESS, Pension/Social Security Funds		
9	Quoting and trading in ECOWAS national currencies	On-going	2013 Q2	WAMA, WABA, WAMI, commercial banks, central banks	WABA	
10	Ratification of WAMZ legal instruments	Latest 1 July 2014	Latest 1 July 2014	Member States, WAMI	WAMI	WAMI intends to organize a summit in 2012 to facilitate the ratification of legal instruments
11	Establishment of WAMA Common Central Bank (WACB), WAMZ Secretar-	Before 1 January 2015	Before 1 January 2015	WAMI, WAMZ, Member States	WAMI	

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
	iat and the West African Financial Supervisory Agency (WAFSA)					
12	Launching WAMZ Monetary Union	Before 1 January 2015	Before 1 January 2015	WAMI, WAMZ, Member States	WAMI	
13a	Introduction of WAMZ common currency (Eco)	1 January 2015	1 January 2015	WAMI, WAMZ, Member States	WAMI	
13b	Withdrawal of national currencies	1 January 2015 – 30 June 2015	1 January 2015 – 30 June 2015	WAMI, WAMZ, Member States	WAMI	
14	Contribution to the WAMZ Stabilization and Cooperation Fund	Before 2014 ending	Before 2014 ending	WAMI, WAMZ, Member States	WAMI	
15	Cape Verde and Liberia to officially join any of the two zones	To speed up the on-going process	To speed up the on-going process	ECOWAS Commission, WAMA, WAMI	ECOWAS Commission	

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
16	**Institutional framework** The different stages of proposing and validating the institutional framework comprises appointment of an Eminent Personality and establishment of a Committee of Experts (2014) that will propose an appropriate framework, meetings of the Committee of Experts as well as meetings of Council of Ministers, ECOWAS Parliament, Summit of Heads of State and Government and National Parliaments					
16a	Introduction of a draft supplementary act to the ECOWAS Treaty regarding the Monetary Union	Three (3) years before the launching of the ECOWAS single currency				
16b	Design and technical preparation of the ECOWAS common currency					
16c	Irrevocable fixing of exchange rates					
16d	Definition and declaration of exchange rates to IMF			On the basis of proposals made by the Committee of Experts under the supervision of an		

S/N	Activity	Initial Period	Revised Period	Responsible Institutions	Coordination institution	Comments
16e	Discussion on establishment of a common central bank					
16f	Commencement of merger talks between the two monetary zones					
16g	Launching of ECOWAS Monetary Union					
16h	Establishment of ECOWAS Central Bank	2020	2020			
16i	Sensitization Campaign	On-going process to be initiated at the earliest	On-going process to be initiated at the earliest		WAMI (for WAMZ) ECOWAS Commission (for ECOWAS)	
16j	Introduction of ECOWAS common currency	2020	2020			
16k	Withdrawal of other currencies	2020	2020			