

# The Quest for a West African Monetary Union: Implementation Issues, Progress and Prospects

By  
Nelson O. Magbagbeola, Ph.D.  
National Centre for Economic Management  
and Administration, Ibadan, Nigeria  
E-mail: lekan@ncema.gov.ng

## **Abstract**

The idea of regional economic integration is associated with democratic nation states. Is the West African sub-region ready for monetary integration? How soon can the monetary union issue be resolved so that the formation of African Union will not be jeopardised? This is the focus of this paper. Economic integration among nation states is encouraged because it remains an important route to economic growth and development. It is a process by which a group of countries comes together to forge a larger economic environment in order to enhance economic growth and development. Monetary integration is an important dimension of economic integration which involves the establishment of a central monetary authority, a unified monetary policy, a single currency or a mechanism by which all the national currencies are made convertible to one another.

Given the importance of monetary integration to the economic development of the West African sub-region, the Authority of Heads of State and Government of the Economic Community of West African States (ECOWAS) in 1975 created the West African Clearing House (WACH) as a payment mechanism to facilitate intra-regional trade within the sub-region. In 1986 WACH was restructured and metamorphosed into the West African Monetary Agency (WAMA) with an expanded mandate of promoting trade liberalization and monetary cooperation. In addition, it is expected to ensure the establishment of a single monetary zone by creating the necessary conditions leading to the implementation of uniform monetary policy and creation of a single currency.

In furtherance of the monetary integration initiatives, the Authority of Heads of State and Government at the Abuja (Nigeria) Summit in 1987 adopted the ECOWAS Monetary Cooperation Programme (EMCP). The main objective is to achieve a harmonised monetary system through the observance of a set of macroeconomic convergence criteria that would ultimately result in the strengthening of the economies of member states. The convergence criteria consist of four primary criteria and eight secondary criteria which ECOWAS member countries are expected to observe before they can join the single monetary union in 2005. The primary convergence criteria are reduction budget deficit to GDP ratio to a maximum of 3 percent; reduction of central bank deficit financing to a ceiling of 10 per cent of a previous year's fiscal revenue; maintenance of a maximum 5 percent inflation rate; and maintenance of gross reserves to cover at least six months of import. The secondary criteria, which are policy instruments to reinforce the primary criteria, relate to: no accumulation of domestic arrears; 20 percent minimum of fiscal receipt/GDP ratio; 35 percent maximum of wage bill/total fiscal receipts; 20 percent

minimum of public investment/tax receipts ratio; real exchange rate stability; and positive real interest rate. A review of individual country performance shows that no single economy has been able to satisfy the criteria although there were sustained efforts to achieve them.

In order to hasten the monetary integration process, a two-track approach was adopted by the summit of Heads of State and Government in Lome in 1999. This led to the April 2000 Accra Declaration in which five countries namely The Gambia, Ghana, Nigeria, Guinea and Sierra Leone agreed to form a second monetary zone, the West African second Monetary Zone (WAMZ), by 2004 which would later merge with the UEMOA<sup>1</sup> to form the West African Monetary Union in 2005. The essence of the WAMZ is to ensure the emergence of only two currencies (in the place of current eight currencies) in the sub-region as it will be easier to merge the two currencies into one.

However, the prospects of the emergence of the West African Monetary Union in 2005 are dimmed unless some fundamental issues are quickly resolved. The issues include low level of intra-regional trade often associated with transportation and communication problems; presence of parallel and competing monetary arrangements consisting of the franc zone, the Escudo zone and the Dollar zone; asymmetry in the implementation of the ECOWAS Trade Liberalization Scheme (TLS); and lack of political will by member countries to respect, at implementation stage, agreements jointly reached by them; under-development of the sub-region's capital markets; wide disparity of  $\pm 15$  percent Exchange Rate Mechanism (ERM); macroeconomic indiscipline; and lack of awareness by citizens of member countries on the integration issue.

Although concerted efforts are being made towards resolving the issues, it will be a miracle if all the issues can be resolved by December 2003 to pave way for the emergence of the West African Monetary zone in 2004 which would be expected to merge with the franc and escudo zones to form the West African Monetary Union in 2005. The 2005 deadline is unrealistic and should therefore be extended.

---

<sup>1</sup> UEMOA means "Union Economique et Monetaire Ouest Africaine" and comprises all the eight countries in the CFA Franc Zone in West Africa. The countries are Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo.