
CONFERENCE ON THE IMPACT OF THE GLOBAL FINANCIAL CRISIS (GFC) ON
ECONOMIC PROCESSES IN AFRICA, JANUARY 28 – 29, 2010: HOUSE OF SCIENCE (HAUS
DER WISSENSCHAFT), BREMEN, GERMANY

**Building Infrastructures for Macroeconomic Stability of the West African Monetary Union in
an Environment of Global Financial Crisis (GFC)**

JEL Classification: E59, F36, G18

By

***Akongbowa Bramwell AMADASUN, Ph.D**

**Lecturer, Department of Political science and Public administration, Benson Idahosa University,
Benin City, Nigeria**

And

Sam GUOBADIA, Ph.D

**Senior Lecturer and Head of Department, Economics, Banking & Finance, Benson Idahosa
University, Benin City, Nigeria**

*Dr. Akongbowa Bramwell AMADASUN is the corresponding author. His email address is akobama
246@yahoo.com

JANUARY 2010

Building Infrastructures for Macroeconomic Stability of the West African Monetary Union in an Environment of Global Financial Crisis (GFC)

By

***Akongbowa Bramwell AMADASUN, Ph.D**
Benson Idahosa University, Benin City, Edo State, Nigeria

And

Sam GUOBADIA, Ph.D
Benson Idahosa University, Benin City, Edo State, Nigeria

ABSTRACT

This paper outlines the relevant incentives and fundamental measures that would help in stabilizing the West African economies in light of Global Financial Crises (GFC) as they strive to achieve full monetary integration. The paper posits that there is a high level of under-development and macro economic instability, which if allowed to scale up within the context of current global financial crisis, would lead to devastating consequences for fiscal sustainability and other critical components of the formative stages of monetary union. It examines inadequacies in forging a common socio-economic policy and structural reforms for mitigating GFC. There are specific examinations of fiscal sustainability, common currency and exchange rate mechanisms, the independence of the Central Bank in a supranational economy, strategies and tactics for monetary policy, the deepening effects of the capital markets and the issues of legal and institutional frameworks for a full macroeconomic delivery in the West African Monetary Union (WAMU). The sub-region suffers from chronic macroeconomic instability and the drive for macroeconomic management of all relevant institutions is bedeviled by divergent policies. The fundamental set of solutions will emerge from quick policy convergence and the deepening of essential reforms in order to avert the negative contagion effects of GFC, and the realization of a fully integrated monetary union for the sub-region.

Key words: *monetary integration, global financial crises, WAMU, monetary policy, macroeconomic stability*

I: INTRODUCTION

The Economic Community of West African States (ECOWAS) was established as a sub regional economic group in the Treaty of Lagos of May 28, 1975. The major aim is the accelerated economic growth and development of the sub region, and ultimately, to create a common market or monetary union. From inception to date, the ECOWAS is made up of two major groups: (1) The Francophone (French speaking) Group, which comprises Benin, Burkina Faso, Cote d' Ivoire, Guinea Bissau, Mauritania, Niger, Senegal and Togo. Mauritania opted out of the group in 2002. (2) The Anglophone (English speaking) group consists of Cape Verde, the Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. The Francophone group has progressed faster than the Anglophone group in terms of efforts in setting up a monetary union – as typified in the Union of Economique Monetaire et

I' Quest African (UEMOA). Therefore, monetary integration in the sub region is discussed from two perspectives: The non – UEMOA (Non CFA) and the UEMOA (CFA) perspectives.

The origin of UEMOA can be traced to the Union of Economique et I' Quest African (UMOA) of 1962. This expanded to become the UDEAO, a customs union in 1966. It further transformed into an economic community, the CEAO, in 1973. In 1994, the CEAO gave way to the UEMOA which was established by the Treaty of January 10, 1994 among the French speaking countries. It adopted a common currency, the CFA, issued by Banque Centrale des Etats de I' Afrique de I' Quest (BCEAO), with the backing of French treasury and has a fixed convertibility with the Euro. On the other hand, the Anglophone countries had a common currency prior to their independence. This was administered by the common currency Board of the British West Africa for commercial transactions. With the grant of independence, each country adopted its own currency and conducted its national trade policies to suit its own development strategy and needs. The Anglophone is made up of Nigeria, Ghana, Liberia and Sierra Leone. Guinea left the Francophone group to join the Anglophone countries in monetary cooperation and programme.

In 1999, it became obvious that the implementation of the ECOWAS Monetary Cooperation Programme (EMCP) that was adopted in 1987 was either failing or moving at a very slow pace. Consequently, in the 22nd Summit in Lome, Togo in December 1999, the Authority of Heads of States and Government of ECOWAS adopted a “Fast Track” approach for economic and monetary integration. Specific objectives of the EMCP include:

- Improvement and strengthening of sub-regional payments systems under the West African Clearing House (now West African Monetary Agency-WAMA);
- Introduction of limited Currency convertibility;
- Establishment of a single monetary zone (merger of the French and English speaking countries monetary programmes)
- Creation of a common central bank; and
- Ultimately, the introduction of a single common currency.

In December 2000 in Bamako, Mali, the ECOWAS Heads of States and Governments agreed to the establishment of the West Africa Monetary Zone (WAMZ); the establishment of a common Central Bank; and the introduction of single common currency in 2003, and eventually merge with UEMOA in 2004 under an ECOWAS monetary integration programme. It was on this premise that the West African Monetary Institute (WAMI) was established in January 2001 to commence preparatory work for the introduction of a single currency and a common central bank in the WAMZ. Under WAMZ, a zonal convergence criterion (primary and secondary) was established.

The ECOWAS Zone has, in the past three decades, been subjected to significant economic reforms in the macroeconomic, financial and political sectors with a view of achieving a viable

monetary union within the context of globalization and GFC. However, the GFC has presented the region with new challenges. The major challenge is building the necessary sub-regional macroeconomic and financial infrastructures which will enhance full economic and monetary integration. The sub-region suffers from a number of problems, which include: (1) Currency inconvertibility and lack of a single currency. (2) Barriers to trade and factor mobility. (3) Non-harmonization of fiscal and monetary policies. (4) Lack of a supra-national Central Bank with oversight powers. (5) Ineffective institutional and legal frameworks for the protection of financial investors. (6) Lack of common accounting and reporting standards and, (7) Lack of a fully developed capital market for the sub-region.

The challenges in the ECOWAS Zone in the context of current global financial crisis are enormous. They are to be tackled both at the individual member States' level and at the sub regional levels. However, because of the complex and multi-dimensional nature of these challenges, this paper only attempts to provide broad policy guidelines for achieving set goals. What macroeconomic and financial policies and programmes does the sub region need to put in place in order to sustain monetary integration drives in GFC environment? Will the liberalization of the capital markets across the sub region be helpful to weathering GFC? Will transparency and accountability institutional as well as robust legal frameworks provide additional layers of protection for the sub-region in times of crises? What effects will the current global financial crisis have on the ECOWAS drive for a monetary union? To what extent will the alignment of exchange rates and the adoption of a common regime insulate and speed integration efforts in times of crises? How can the political differences and the colonial rivalry between the Anglophone and the Francophone countries be eliminated? These are indeed interesting questions for the keen mind.

The rest of this paper breaks down as follows: Section II outlines and discusses key macroeconomic infrastructures. This is followed by important critical analyses of financial and legal frameworks in Section III. The paper concludes with Section IV.

II: MACRO ECONOMIC INFRASTRUCTURES

Fiscal Sustainability

For several reasons, fiscal sustainability is a critical tool for building infrastructures for weathering the GFC by the ECOWAS. Fiscal imbalances of the ECOWAS member countries have resulted in fewer investments and the build-up of government debts, which have threatened macroeconomic stability as well as monetary integration drives. The attendant higher interest rates necessitated by deficit borrowing have often compounded the problems. The transmission channels of the various countries' monetary policies become difficult to achieve (WAMI, 2004).

The fiscal and debt analysis in this paper is restricted to WAMZ countries as shown in the study (Onwioduokit, 2004), which compiled several solvency and liquidity indicators (See Tables I – VI). In Table I, the actual performance indicators are, on the average, below the required benchmarks. Tables II – VI contain entries which indicate overall poor performance in relation to the established thresholds.

Table I: Primary Balance* (excluding grants) and Required Primary Surplus² as percentage of GDP

| Country | Actual 2000 | Required 2000 | Actual 2001 | Required 2001 | Actual 2002 | Required 2002 | Actual 2003 | Required 2003 | Actual 2004 | Required 2004 |
|--------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|
| The Gambia | 8.8 | 9.4 | -4.7 | 9.8 | -4.2 | 8.2 | -1.3 | 8.4 | 2.8 | 28.0 |
| Ghana | 0.5 | 3.6 | 1.0 | 1.5 | 1.7 | 4.2 | 2.5 | 4.6 | 1.1 | 10.8 |
| Guinea | -3.4 | 5.8 | -3.9 | 8.9 | -4.6 | 2.8 | -5.8 | -1.5 | -3.2 | 3.9 |
| Nigeria | 3.9 | 5.5 | 3.3 | 0.5 | -1.1 | 1.6 | 2.3 | 13.8 | 13.3 | 7.4 |
| Sierra-Leone | -13.5 | 36.5 | -11.1 | 10.0 | -10.1 | 17.3 | -8.7 | 3.9 | -8.9 | 15.4 |

*Primary balance measures how the current fiscal policy stance affects the net indebtedness of the public sector

Table II: Total Debt/GDP Ratios (Threshold 150%)

| Country | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|-------|-------|-------|-------|-------|
| The Gambia | 157.3 | 150.7 | 179.0 | 203.4 | 151.3 |
| Ghana | 144.5 | 145.8 | 135.3 | 109.0 | 96.4 |
| Guinea | 165.2 | 182.0 | 172.0 | 169.3 | 157.3 |
| Nigeria | 83.5 | 80.9 | 90.7 | 77.8 | 68.8 |
| Sierra-Leone | 215 | 177.9 | 164.7 | 172.8 | 178 |

Table III: Total Debt Service/Domestic Revenue Ratios (Threshold 15%)

| Country | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|------|------|------|------|------|
| The Gambia | 20.7 | 26.5 | 32.0 | 40.4 | 32.8 |
| Ghana | 81.1 | 56.8 | 58.2 | 45.1 | 35.2 |
| Guinea | 35.2 | 33.4 | 38.8 | 53.1 | 47.5 |
| Nigeria | 16.4 | 14.7 | 21.7 | 26.5 | 10.6 |
| Sierra-Leone | 48.7 | 57.4 | 63.3 | 71.8 | 56.1 |

Table IV: Total Debt Service/Export Ratios (International Benchmark 10%)

| Country | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|-------|------|------|------|------|
| The Gambia | 17.7 | 17.9 | 18.5 | 16.8 | 16.4 |
| Ghana | 23.8 | 12.1 | 18.2 | 17.9 | 13.4 |
| Guinea | 12.7 | 12.4 | 16.8 | 20.7 | 19.4 |
| Nigeria | 16.4 | 16.8 | 19.9 | 8.0 | 7.5 |
| Sierra-Leone | 291.4 | 77.7 | 69.4 | 62.2 | 39.0 |

Table V: Net Present Value of Debt/Domestic Revenue Ratios (Threshold 150%)

| Country | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|-------|-------|-------|-------|-------|
| The Gambia | 651.2 | 677.4 | 558.3 | 426.2 | 268.4 |
| Ghana | 398.8 | 253.0 | 241.1 | 160.3 | 113.6 |
| Guinea | 479.7 | 423.8 | 372.6 | 337.4 | 304.1 |
| Nigeria | 192.8 | 164.6 | 212.2 | 142.7 | 92.4 |
| Sierra-Leone | 846.2 | 620.1 | 539.5 | 447.6 | 373.8 |

Table VI: Net Present Value of Debt/Export Ratios (Threshold 150%)

| Country | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------|---------|---------|---------|-------|-------|
| The Gambia | 493.0 | 355.4 | 241.6 | 211.2 | 191.7 |
| Ghana | 292.7 | 227.4 | 188.8 | 158.4 | 158.4 |
| Guinea | 230.7 | 179.1 | 180.3 | 178.9 | 153.3 |
| Nigeria | 208.7 | 203.1 | 216.0 | 140.7 | 122.5 |
| Sierra-Leone | 4,787.6 | 2,220.4 | 1,262.6 | 387.6 | 259.9 |

Macroeconomic performance in the ECOWAS Zone has been generally disappointing despite a good number of political commitments to achieve stability in the various economies and convergence at the sub-regional level. The road to economic and monetary convergence has been bumpy for all members. An ECOWAS convergence criterion is divided into primary and secondary criteria, with various target dates set for the desired goals. The primary criteria consist of four pillars, namely; lowering inflation rates, improving budget deficit to GDP ratios, reducing Central Bank financing of budget deficits and achieving adequate reserve holdings. The secondary criteria consist of

six pillars, namely; zero domestic debt arrears, improved ratio of tax revenue to GDP ($> 20\%$), wage bill/total tax revenue ($<35\%$), exchange rate stability (defined as $\leq 15\%$ of quoted central rate), positive real interest (>0) and public investment/tax revenue ratio ($<20\%$).

Several factors critically constrain fiscal sustainability in the ECOWAS, These include: unfavorable terms of trade, weak revenue base, overdependence on foreign grants, excess expenditures, .and the dependence on one-export commodities. These factors often explain why negative external shocks can easily destabilize the fiscal programme of ECOWAS economies and other attempts at achieving full economic and monetary integration. Also, GFC often lead to reduction in Foreign Direct investments further compounding fiscal management efforts. In this kind of environment, the move towards convergence remains a difficult task in the region – requiring hard decisions and choices, particularly because macroeconomic policy coordination in the sub-region is very weak. Many ECOWAS members do not set their macroeconomic targets in consonance with the regional benchmarks to which they have committed themselves, and there is no effective mechanism for sanctions of member States that consistently miss set targets. Onwioduokit (2004) found that overall fiscal unsustainability can be identified with trade and financial shocks, weak revenue base; overdependence on foreign grants; excessive expenditure, etc.. WAMZ member countries' ratio of total tax to GDP was consistently below 20 percent for most countries.

In view of the foregoing analysis, there is the need for improved fiscal stability and fiscal policy convergence in times of crisis or no crisis as the sub-region pursues its monetary integration goals.

Intra-Regional Trade

It is fair to state that full economic integration is a necessary condition for monetary integration. The ECOWAS Trade Liberalization Scheme (ETLS) and the protocol on the free movement of goods and services came into force on January 1, 1990; the aim being to establish a common union among ECOWAS member States over a 15-year (1990 – 2005) period. It represents a formidable tool established by ECOWAS for the facilitation of trade towards achieving economic integration. It specifies the free movement of citizens and goods among ECOWAS States. However, 20 years after, these protocols have not worked and the full implementation of the scheme faces several challenges, which include the lack of adequate information on the availability of products, inadequate trade and poor infrastructural development (including power, transportation and road networks). Other barriers include protection laws instituted by the various countries, corruption, and the non-convertibility of the sub-region's currencies and the lack of a common currency to facilitate trade among member states (Oluyinka Alawode, 2009).

Trade among the French speaking countries has progressed faster because of the monetary integration efforts they have made in UEMOA and the adoption of a common reserve currency, CFA

Franc. They have free internal trade and a common external tariff, free movement of products, capital and people, and the harmonization and mutual recognition of technical standards. Trade policy in most UEMOA countries is seen as instrument of national development. In the case of the Anglophone countries, the common currency Board of British West Africa provided the common currency for commercial activities up to when independence was granted to the respective countries. After independence, the countries opted for their individual currencies and conducted national trade policies to accommodate their individual development strategies, with numerous tariff policy variations among its members. Overall, the sub region suffers from low value of intra-regional trade. The volume and value of the trade among member countries is very low. From 1998-2002 the intra-regional exports and imports average US\$1,250 million and US\$212 respectively. The leading economies in the region namely: Nigeria, Ghana, Cote d' Ivoire and Senegal are sustaining respective national development agendas and thus prefer linkages with developed countries outside the region. The existence of many currencies in the sub-region is a key drawback to its trade and integration drives. In order to be able to compete globally, ECOWAS countries ought to liberalize their economies within the context of the GFC, avoid imposition of protectionist trade laws and enjoy more economies of scale.

Capital Accounts Liberalization

Capital accounts liberalization which represents the systematic removal of administrative and legal control on international capital transactions is very critical in the policy reforms for ECOWAS Zone's monetary union in the context of the current GFC. Ojo (2006), citing a study carried out by the West African Monetary Agency (WAMA), West Africa Monetary Institute (WAMI) and the ECOWAS Secretariat, found that in the UEMOA countries, capital movements were liberalized but capital movements between UEMOA and other countries in ECOWAS were regulated. In the WAMZ, the Gambia has the highest score on capital account liberalization with a score of 90%, that is, nine out of the ten capital transactions are free of controls. The only one with controls is credit operations between residents and non residents. The Gambia has also accepted the Article VIII of the IMF Articles of Agreement on current account transactions. This openness of the Gambian economy has produced positive effect on investment and growth. But the economy is relatively small within the WAMZ. Nigeria is next to Gambia with a score of 80%. Liberia has freed its account to the tune of 50%, Ghana (16.7%), Guinea(45.5%), and Sierra Leone (44.4%).

Overall, ECOWAS present a case of a sub-region with above average level of controls on capital movements which is not good for monetary union drives particularly within the context of developing a capital market for the region and capital resourcefulness which could shelter the region from the effects of contagion. Capital account liberalization in the ECOWAS sub-region assumes complexities that involve several economies with diverse features and management practices. Against this background, for ECOWAS to be able to weather the current financial crisis, it must address the

minimum conditions for effective capital account liberalization. These conditions include: (1) Stable macroeconomic environment that is free of high domestic inflation rates, fiscal and monetary instability and external imbalances of its member countries. (2) Strong prudential guidelines and adequate supervisory framework that would checkmate excessive financial market risks. (3) Stable political environment in the sub region. (4) The financial sector must be sound and fully integrated within the context of a monetary union. (5) Determination and execution of a well sequenced liberalization programme. This aspect is important when it is realized that ECOWAS is made up of a number of countries that are likely to be at different stages of economic and financial development, evolution of institutional structures, legal and business practices.

Exchange Rate Mechanism and Common Currency

There are about eight different currencies in the ECOWAS, of which the CFA Franc – the common currency of the French speaking West African Economic and Monetary Union is one of them. The ECOWAS Monetary Cooperation Programme (MCP) adopted in 1987 continues to pursue the realization of a common currency for the sub-region. In order to make the ECOWAS payment system more efficient and pave the way for the emergence of a single monetary zone, the West African Monetary Agency (WAMA) was established in 1995. The adoption of a single currency is to be facilitated by a transitional Exchange Rate Mechanism (ERM) in the WAMZ. This is designed to encourage exchange rate stability and assist the process towards merging with the CFA Zone and the monetary convergence of the entire sub-region. In the drive to achieve a single currency for the sub-region, two options have been debated:

(i) Fixed Parities Relative to a Regional/Zonal Basket of Currencies:

This option is similar to that of the European Monetary System (EMS). Under this option, the West African Currency Unit (WACU) or a weighted average of the basket of the six currencies in WAMZ could serve as the reference currency for the ERM. This reference currency, to which the regional/zonal currencies have a fixed relationship, is thus the domestic anchor. However, the WACU is made up of all the currencies in the ECOWAS. The West African Monetary Institute (WAMI) has come up with a WAMZ currency unit called ZOCU. ZOCU is defined as the weighted average of the dollar 1 SDR value of each of the currencies of WAMZ countries. The central rate of each country in the basket of the participating countries' currencies against the ZOCU is derived by deflating its currency amount component of the ZOCU by its weight (GDP weighted coefficient) in the ZOCU basket. The bilateral cross rates are obtained by dividing one central ZOCU rate by another.

Under the fixed parties relative to zonal/regional basket of currencies, each participating currency would have a par value against the other currency allowing for fluctuation within a band of $\pm 15\%$. When an exchange rate approaches the upper or lower limit of its fluctuation range, the central banks of both countries would be obligated to intervene in the market. In addition, the need for

countries to hold reserves in the zone's currencies will allow them the leverage to intervene to support bilateral exchange rate, but there is the problem of the Zone's currency not being internationally traded. And the implementation of this option requires the operationalisation of convertibility agreements.

(ii) Fixed Parities Relative to International Reserve Currency or a Basket of Foreign Currencies.

This is an alternative option available to WAMZ in the transition to single currency. WAMI recommended fixed but adjustable or crawling peg of the zone's currency to an outside-the-region reserve currency, such as the CFA Franc for The UEMOA. At the beginning of the year, the market exchange rate for each currency is adopted as the parity rate for the currency. A margin of fluctuation is set around the par value, along with inflationary adjustments. The aim is to compensate for loss of competitiveness associated with increases in domestic inflation. This option has the advantage of simplicity, transparency and consistency with trade patterns of the zone, and would support external trade. Furthermore it would focus exchange rate policy on promoting external competitiveness and make transition to common currency with the CFA zone easier as the CFA is pegged to the Euro (Obadan, 2002). The option has the disadvantages (1) pegging to an external currency will mean that Central Banks would need to have sufficient currency to undertake intervention; and (2) The option lacks appeal to nationalistic sentiments (Obadan, 2002).

Following Bergsten (1999), the paper suggests that no exchange rate regime is perfect; there are always associated costs. But crawling bands generally are attractive because have the attributes of both fixed and floating exchange rate regimes – avoiding the worst features of both.

III: FINANCIAL, LEGAL AND REGULATORY INFRASTRUCTURES

Financial Reporting and Accounting Standards

The globalization of financial and product markets has raised the interest of market participants and regulators in the quality of financial reporting world-wide and the rise of stock returns and the spread of bubble assets. Would greater transparency in financial statement information reduce volatility and produce more accurate stock value within the context of current global financial crisis in the ECOWAS sub-region? Would more transparent financial statements improve lending and credit evaluation decisions and contain banking crisis in the ECOWAS (or banking crises that emanate elsewhere)? These are important questions for stakeholders and all financial system participants in the ECOWAS sub region, particularly, within the context of the impact of current global financial crisis.

Market participants seek high quality financial information because it mitigates information asymmetry between management of firms and outside investors with the effect on cost of capital and volatility of security prices. It is important to note that the quality of reported financial information is

influenced not simply by institutional factors that affect the demand for and the supply of financial information. The salient institutional factors are the nature of corporate governance, the legal system, and the existence of laws governing protection and disclosure standards (Alashi, 2002). But there is a persistent weakness in these factors in the ECOWAS financial system. There is, no doubt, that high quality financial reporting is important for efficient financial systems. Within the ECOWAS sub-region and in the context of global financial crisis, there seems to be a consensus for the need for a high quality financial reporting which for over four decades seems to have eluded the financial system. Following Ball, Robin and Wu (1999), the ECOWAS Zone stands to gain by addressing key specific questions. The importance of sound financial reporting in weathering the current global financial crisis in the sub region cannot be overstressed. Especially as the financial system remains a critical nerve centre of ECOWAS monetary/economic system. If the system is to grow, develop and be accepted nationally and internationally, there are a number of considerations to address:

1. Accounting standards that reflect the peculiar needs of ECOWAS financial system
2. Accounting standards and financial reporting that meet international standards must be the goal of the financial system, taking into consideration ECOWAS peculiar social, economic and political features and environment.
3. Structures for extensive consultation with relevant stakeholders must be established. Besides that,, extensive consultation with all stakeholders and participants in the financial system (accounting, banking, and taxation bodies inclusive) before standards are set. This is because to act contrary will not be in the interest of the financial system.
4. There should be wide publicity and constant review of accounting standards after they have been set.
5. There should be in place a speedy process for the criminal persecution of auditors who collide with management to window dress financial report with the intention of helping to maintain the false quality of financial reports and ensuring the financial report emanating from the system
6. Put in place mechanism for ensuring that financial reports comply with legal regulatory and disclosure requirements.

Banking Sector Supervision

WAMU (UEMOA) established the Banking Commission as a supra-supervisory agency in the union. The commission is funded by the Central Bank of West African States (BCEAO) and it carries out both on-site and off-site supervision of 64 banks and 24 other financial institutions in the union. As at December 21, 2001, the WAMU banking system has total assets of 5,300 billion of CFA Francs or US\$7billion (Alashi, 2002). Banking activities in WAMU is governed by a Uniform Act for all member States within a community based framework. As a result, the WAMU Council of Ministers determines the general framework and ensures the overall cohesion of the community-based

mechanism. Consequently, the banks and financial institutions are answerable to a triple Authority in varying degrees. These include the ministry of finance in the country of location; the Central Bank of West African States (BCEAO), the issuing authority which manages the common currency (CFA Franc) and which drafts relevant regulations particularly in the area of banking; and the WAMU Banking Commission, which is responsible for the regulation and monitoring of the banking systems. The framework is constantly reviewed in light of the WAMU and global financial system requirements, development and growth. In addition, since 1998 the union has in place a single licensing mechanism and BCEAO is the licensing authority.

In WAMZ, the Central Bank in each member state is the apex regulatory institution with the exception of Nigeria where the Nigeria Deposit Insurance Corporation (NDIC) complements the efforts of the CBN in supervising banks. The coverage of supervision varies from one member State to another. For instance, the Central Bank of Gambia also supervises insurance companies, where as, insurance companies are supervised by the National Insurance Commission in Nigeria. This kind of variation is certainly bound to produce opposition to a proposal for a unified bank regulatory agency in the WAMZ. Only Nigeria has an effective financial safety net that includes an Explicit Deposit Insurance Scheme (EDIS); the other member states in the WAMZ operate only Implicit Deposit Protection Schemes (IDPS).

The major issue is the role defined for the ECOWAS banking sector in terms of economic development in the sub-region, particularly in times of crises. The desire would be to establish a financial system that is efficient, competitive and stable, providing diversity of choice; macroeconomic stability, economic development and accomplishment of other social objectives. The importance of the banking sector supervision in the sub region cannot be over emphasized, especially as indications point to a weak banking sector in terms of performance, structures and regulation. Many of the supervisory agencies lack sufficient independence from special interest groups and the political process, thus rendering them ineffective. Any viable banking sector reform for the sub-region will comprise

- i. adopting prudential regulations that are consistent with normal practices;
- ii ensuring that banks supervisors have the ability to gather timely information and intervene early when banking crises arise, through empowering them to intervene when appropriate and with a clear legal mandate;
- iii tackling the sub-regional liquidity problems. The Central Banks and the Supra monetary agencies should be forced to put in place a structure for managing liquidity in the sub-region
- iv ensuring that regulatory agencies create incentives for increased capitalizations. In addition, consolidated supervision and specific regulations for bank holding companies should be

required with a view to averting the risk of conglomerate designs which are used to channel low quality assets into banks.

- v providing sound and sustainable macroeconomic policy environment in the sub region. This is particularly important in the WAMZ where there is a large level of policy inconsistency, inadequate coordination of monetary and fiscal policy, which tends to encourage divergence in many of the sectors.
- vi installing an effective financial market premised on a culture of financial transparency and effective corporate governance discipline in the financial institutions.
- vii vesting in supervisory authorities the powers and authority for effective distress resolution in banks.
- viii establishing a proper credit culture in the sub-region that would foster the honoring and enforcement of financial contracts, on the one hand. On the other hand, the entronement of the best practice of ethical standards in financial dealings.

Capital Market Development in ECOWAS Monetary Integration Agenda

A key component of the sub-regional drive to achieve a comprehensive economic and monetary integration is the setting up of a common investment and capital market superstructure. A capital market integration involves perfect capital mobility, and the sub-regional investment projects are financed by a pool of capital; a free movement of capital assets with minimal costs of doing so. All participants in the capital markets are free to transact financial businesses throughout the region without any hindrance. In recognition of this, the moves toward full integration of the three major stock exchanges in the ECOWAS sub-region received a boost on December 4, 2009 at conclusion of the 13th Annual Conference of the African Securities Exchanges Association that held in Abuja, Nigeria. The representatives of the two major WAMZ stock exchanges (Nigerian and Ghana stock exchanges) as well as the Bourse Regionale des Valeurs Mobilières (BRVM) signed a MOU expressing their commitment to integrate the stock exchanges in the region. The BRVM is a regional exchange for the Francophone West African countries. The ultimate goal for the stakeholders is to have a common stock exchange serving the entire sub-region by instituting a regional platform which addresses differences in currencies, language and laws guiding securities regulations.

There are many benefits from capital market integration. An integrated capital market signifies deeper capital markets for all participants. It creates and supports a situation where huge capital resources are mobilized for investment purposes. It also encourages competition and a more efficient allocation of resources among competitive alternatives. Above all, capital market integration yields other dividends in the form of investment opportunities, economies of scale, bigger stock markets, longer listings, higher yields, industrial transformation of markets, improved macroeconomic performance, and so on.

The foregoing definition and benefits of capital market integration informs the keen mind why the stakeholders in the ECOWAS Zone are desirous of achieving full capital market integration despite all odds.

The West African sub-region boasts of a vibrant private sector modeled on the basis of market orthodoxy. Many of the private companies are officially listed and traded in the Nigerian Stock Exchange, Ghana Stock Exchange and the BRVM, which serves the Francophone countries of Cote'Ivoire, Benin Republic, Burkina Faso, Mali, Niger, Senegal, Togo and Guinea-Bissau. Also, the activities of several banking and non-banking financial institutions due to regulatory shocks have further deepened the capital markets. Some of the investment and financial institutions have started to develop global outreach as a result of the huge financial mobilizations credited to the stock markets.

To the credit of ECOWAS member states, the implementation of all aspects of the Free Trade Agreements and Customs Union have progressed steadily yielding numerous gains for the citizens of the sub-region. It is now time to emphasize the progress toward a common investment and full capital market integration along with all the attendant benefits. In 2000, the Committee of Central Bank Governors adopted several phases for achieving full convergence with particular respect to the forming of a monetary union for the entire sub-region. The first phase contains the need to harmonize exchange controls and liberalization of the capital markets. The goal, of course, is to achieve optimal performance in the mobilization of financial resources in the sub-region. Thus it is assumed that a sufficient condition for full monetary union is, undoubtedly, a complete liberalization of the capital markets. It is, however, argued in this paper that complete capital market liberalization is a necessary condition for the monetary union due to the increased openness of member states and effects of globalization.

Globalization is pervasive. For this reason, much of the growth and changes in capital markets worldwide can be traced to the increasing interactions among global capital market participants, including investment banks and Issuers; competition among brokers, investors and exchanges. Furthermore, the growth in demand for capital market instruments is in the upswing; the increase in the supply of financial resources on a border-less basis have spurred fresh competition whereby the exchanges and economic blocs that survive will be those benefitting from the assessments measured by the relative sizes of the market and the depth of trading activities.

Therefore, it is necessary that the ECOWAS Zone develop quickly and liberalize its capital market sector in order to compete globally on the one hand. On the other hand, deep and effective mobilization of financial resources for development of the real sector is also a great motivating factor. To speed up this development, policy guidelines will include lowering of costs of financial transactions, reduction of associated risks in cross-border capital transfers, and a faster integration of the capital markets, etc. The realization is that the ECOWAS zone has demonstrated its willingness

and readiness with the setting up of the Common Investment Market Initiative (CIMI), adopted by the Authority of the Heads of states in the sub-region.

The drive to achieve common and full capital market liberation will include the sustenance of existing institutions established to create and maintain the enabling environment for the set objectives. The institutions include the ECOWAS Common Investment Code (ECIC), the ECOWAS Investment Policy Framework (EIPF) and the ECOWAS Bank for Investment and Development (EBID). The code and framework contain guidelines on competition and investment rules, and they have sufficiently laid the foundation for the take-off of the sub-regional Investment Market Process. The challenge in this regard does not rest on the formats of the codes and frameworks, but rather, on the accomplishment of agreements on convergent positions, the peculiarity of the divergent views and the streamlining of convergence criteria in all aspects of capital market institutions.

The EBID, which was transformed from the ECOWAS Fund, has, as its main goal, the facilitation of business, investment and financial transactions in the ECOWAS Zone. This bank has contributed to financial and capital market developments throughout the sub region. As the principal financial institution of ECOWAS, its increasing activities are designed to encourage the achievement of full economic and monetary integration of the region. The private sector focus of EBID includes adopting the private sector as the engine of sustainable growth and development. It also takes the financing of cross-border investment projects and the marrying of WAMU and WAMZ as its primary objectives.

Deepening Effects of Capital Markets in the ECOWAS Zone.

Many banking reforms in the sub-region have triggered the deepening effects of the capital markets. Most financial institutions view the capital markets as the preferred source of raising capital. The development and interest in equity financing have yielded huge benefits for the small savers, the companies as well as the development of the capital market sector. A vibrant capital market sector will encourage the public to provide investible funds by purchasing securities as part of their investment choices. This leads to economies of scale in all the sectors of the sub regional economy, encourage more citizens of ECOWAS to be more inclined to save and invest by way of equity.

The deepening effect of the capital markets are best captured by the ratios of Market Capitalization to GDP (MC/GDP) for Ghana, Nigeria and the BRVM, as shown in Table VII:

Table VII: - Ratio of Market Capitalization to Gross Domestic Product for Ghana, Nigeria & the BRVM

| Countries | Years | | | | | | | | | | | |
|-----------|-------|------|------|------|------|------|------|------|------|------|------|--|
| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | |
| | | | | | | | | | | | | |

| | | | | | | | | | | | |
|------------------|-----|-----|-----|-----|-----|-----|------|------|------|------|------|
| Ghana | - | - | - | 1.2 | 1.3 | 2.0 | 34.4 | 25.5 | 21.5 | 16.5 | 18.5 |
| Nigeria | 4.2 | 4.2 | 4.8 | 6.9 | 3.7 | 4.8 | 11.5 | 7.2 | 10.1 | 10.1 | 9.0 |
| Cote'Ivoire/BRVM | 4.3 | 5.4 | 5.1 | 5.2 | 4.3 | 3.7 | 5.1 | 7.9 | 7.5 | 10.9 | 14.2 |

| Countries | Years | | | | | | | | | |
|------------------|-------|------|------|------|------|------|------|------|------|------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Ghana | 11.9 | 10.1 | 9.9 | 12.0 | 18.7 | 29.8 | 15.5 | 25.4 | 15.9 | 21.1 |
| Nigeria | 8.5 | 9.2 | 11.3 | 9.7 | 14.0 | 16.5 | 17.2 | 22.3 | 52.0 | 23.5 |
| Cote'Ivoire/BRVM | 12.1 | 11.4 | 11.0 | 11.6 | 12.0 | 13.5 | 14.2 | 23.9 | 42.2 | 30.2 |

Source: WDI 2009 Database; World Development Indicators, World Bank

The trends established in Table VII are encouraging and they augur well for the deepening effects of the capital markets. Full integration of this sector as well as full capital liberation will create many macro-economic gains throughout the sub region. In achieving the full effects of the capital markets, the different institutions must be carefully organized for efficiency and oversight. Accordingly, there would be need for a ECOWAS Securities Exchange Commission (ESEC), and a ECOWAS Securities Insurance and Protection Commission (ESIPC). The primary responsibility of each of these Commissions will, respectively, be for oversight and protection of participants in the sub regional capital market sector. Other processes and procedures for success include:

- Creation of subzones in the sub region for the physical location of stock-exchanges.
- All stocks are to be listed in all regional stock-exchanges.
- An Average Daily Index System should be instituted to track daily volumes traded for the entire region.
- The development and implementation of an educational and sensitization programme for the benefits of potential participants in the sector.

To fully maximize the gains from a comprehensive sub-regional integration will require harmonization in monetary policies, financial services policies, investment policies, corporate tax policies, and the intensification of capital market integration and development. This suggests that to achieve a viable common capital market may essentially result in some loss of sovereignty because success will require considerable amount of policy cooperation and harmonization.

A common sub-regional Investment and Capital market must contain the following essential components:

- (a) Free movement of capital assets
- (b) Access to Commercial Credit throughout the ECOWAS Zone
- (c) Ease of opening account with brokerage firms as well as other financial institutions.

(d) Ease of transfers of dividends, capital gains and other profits from financial services.

Finally, every progress made in the drive to fully integrate the sub region will be contingent on the depth of macroeconomic policy harmonization among member states. The critical areas include but not limited to broad based monetary matters, fiscal issues, financial services issues, investment and corporate tax issues as well as incentives policy issues. Above all, harmonization of domestic responses to the effects of contagion due to globalization and international financial crises would be necessary.

Legal and Regulatory Frameworks

The awesome complexity and dynamism of a transiting sub-regional economy like that of the ECOWAS Zone requires laws, rules and norms based on transparency and openness that can encourage and facilitate economic and financial transactions. While a poor legal and regulatory framework might not be the proximate cause of financial crisis, in times of crises, the weakness of the legal and regulatory framework could make the region more vulnerable to the effects of the GFC and the restoration of financial stability and confidence becomes more daunting. ECOWAS member States have in place some bankruptcy and secure transaction laws. However the legal system is more interested in protecting rather than doing away with inefficient corporations.

In addition to the weak, corrupt and the often politically manipulated judicial systems, the sub-region is bedeviled by a host of regulatory agencies conflicts cumulating in unhealthy rivalry, compounded by visible lack of empowerment to implement relevant provision of their enabling acts to discipline powerful participants and the activities of regulatory agencies - a situation that has encouraged institutional weaknesses. The ECOWAS Zone is a mixed grill of deregulated and regulated system backed with weak legal enforcement framework. The first step for salvaging the ECOWAS from present global financial crisis is to recognize that macroeconomic policies are important first steps in many sectors of the economy. It also requires that the 'first steps' must be based on developed as well as reliable legal and regulatory frameworks capable of supervising and regulating the sustained growth and overall development of the sub-region. A reliable and transparent legal framework which is equitable, reasonable, affordable, competent and efficient in commercial dispute resolutions is highly recommended. Following Walker (2000), we have provided below a number of important guidelines for the establishment of a viable legal system for the sub-region:

Guiding Principles for a Legal System in the Sub-Region

- The rule of law should recognize and protect well-desired private property rights (with respect to real, personal, and intellectual property) and basic human rights.
- The rule of law and norms based on transparency and openness should encourage and facilitate economic interchange.

- The rule of law should balance the fundamental human desires for both freedom and order.
- The rule of law which would take into account some degree of governmental intervention in the ‘free’ market is required, provided the interventions are not at the expense of market fundamentals.
- The culture of law that supports the rule of law should be enforced in a manner that inspires public confidence in the law and respect for the intentions of the law.
- The rule of law should reflect the unique culture, history and demographics of the sub-region.
- The financial system in a market economy should be supported by a comprehensive legal and regulatory framework that provides for a stable medium payments, clearance and settlement systems.

IV: CONCLUSION

The paper has examined a number of issues regarding economic, financial and legal developments with a view to formulating and implementing policies necessary for the formation of a monetary union for the ECOWAS Zone within the context of GFC. Particularly, it analyzed several key issues, processes and procedures affecting the macroeconomic and financial architecture in the region. The treatments of the major issues were widespread in terms of the choice of subjects and institutional sectors selected for emphasis. Forging a sub-regional monetary integration among a diverse group of nations and cultures is, no doubt, a difficult task. But the stakeholders must strive to refine the numerous components which are necessary for full monetary integration, particularly in these modern times of heightened globalization and the attendant consequences of global financial crises. The globalizing world has necessitated increased competition which requires large scale economies only achievable by economic and financial integration programmes, among other forms of economic unions.

It is obvious that the political and cultural difference between the Anglophone and Francophone countries partly explains the protracted policy divergence. But each time genuine efforts have been made to integrate many economic and financial aspects of the sub-region, as evidenced in the paper, the resulting outcomes have been quite laudable. This partly explains the sustained drive toward integration in times of crisis or non crisis. The paper presents a view that an unchecked set of deficiencies in inter-regional trade, capital accounts liberalization, exchange rate determination, financial reporting and accounting standards, banks surveillance and the capital markets would, undoubtedly, create vulnerability at two levels; a) in the drive for monetary integration and b) effect of contagion which results from the GFC.

Finally, the new global competition and interdependence which have been so clearly demonstrated in the GFC should forge the basis for a new action on the part of all stakeholders in the

sub-region. By achieving full monetary integration, broad-based monetary asset would be developed to withstand the challenges of a GFC.

REFERENCES

1. Alashi S.O.(2002) “Banking Sector Supervision Under the West African Monetary Zone”, *Central Bank of Nigeria Economic and Financial Review*, Vol. 49, No. 4, December
2. Alawode, O (2009) “Brainstorming on Free Trade”, Business day, Monday, October 12
3. Ball, R, Robin, A and Wu, J. (1999) “Properties of Accounting Earnings” under the Enforcement Institutions of Ease Asian Countries and Implications for the Acceptance of IAS” Working Paper, University of Rochester, New York, USA
4. Bergsten, Fred C. (1999), “Exchange Rate Choices: Discussion” in In Rethinking the International Monetary System, Little, J.S and Giovanni, P.O. (Ed), Boston: Federal Reserve Bank of Boston,
5. Mailafia, O. (2006), Keynote Address presented at the Executive Seminar of the Central Bank of Nigeria, on Capital Accounts Liberalization: Issues, Problems and Prospects,
6. Momoh, S (2009) “How to Make ECOWAS Trade Liberalization Scheme Work”-Stakeholders Workshop, Business Day, October 1,
7. Nnonna, J.O (2002) “The West African Monetary Zone (WAMZ) Convergence or Divergence: Which Way Forward?” *Central Bank of Nigeria Economic and Financial Review*, Vol. 40, No.4, December
8. Pownall, G. and Schipper, K (1999) “The Implications of Accounting Research for SEC’s Consideration of International Accounting Standards for the US Securities Offerings”, *Accounting Horizons*, SEC
9. Obadan, M. I (2002) “Exchange Rate Mechanism under the West African Monetary Zone (WAMZ)”, *Central Bank of Nigeria Economic and Financial Review*, Vol. 40, No 4, December
10. Ojo M. O. (2006) “Capital Account Liberalisation: The ECOWAS Experience”, presented at the Executive Seminar of the Central Bank of Nigeria, on Capital Accounts Liberalization: Issues and Prospects,
11. Onwioduokit, E. A (2004) “Fiscal Sustainability in West African Monetary Zone”, *Economic and Financial Review*, Volume 42, No. 3, September
12. Onyewuenmi, N.A. (2005) “ECOWAS Trade: Progress, Challenges and Prospects”, *Central Bank of Nigeria Bullion*, Vol 29, No. 4, Oct/Dec
13. Walker, J. L (2000) “Building the Legal and Regulatory Framework” In Building Infrastructures for Financial Stability Federal Reserve Bank of Boston, Rosengren, E.S. and John S. J. (Ed.) Conference Series, No 44, June
14. West African Monetary Institute (2004), Assessment of Country Performance in the WAMZ Programme