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By John B. McLenaghan, Saleh M. Nsouli, and Klaus-Walter Riechel

International Monetary Fund
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The following symbols have been used throughout this paper:

... to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 1979–81 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1980/81) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

Contents

Prefatory Note

This study was prepared by a Fund staff team consisting of John B. McLenaghan, Assistant Director of the Bureau of Statistics, Saleh M. Nsouli, Assistant to the Director, African Department, and Klaus-Walter Riechel, Economist, European Department. Mr. McLenaghan and Mr. Riechel were respectively Chief, Exchange Restrictions Division, Exchange and Trade Relations Department, and Economist, Central Banking Department, at the time the study was prepared. As the study was completed in early 1981, it reflects developments in the economies of the member countries of the Economic Community of West African States up to that time.

The authors wish to acknowledge with gratitude the special contribution made by Dr. Aboubakar Diaby-Ouattara, Executive Secretary of the Economic Community of West African States, at whose inspiration the study was initiated and who throughout its preparation provided valuable advice to the Fund staff team.

The study has benefited from comments by a number of colleagues in the Fund. The opinions expressed, however, are those of the authors and do not necessarily represent the views of the Fund nor of the Economic Community of West African States.

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I Introduction

One of the principal aims of the effort to integrate the economies of the 16 member countries of the Economic Community of West African States (ECOWAS)[1] is to expand intra-Community trade. This objective is to be achieved partly through the elimination of quantitative and other restrictions on trade. A customs union is to be established in the region over a period of 15 years dating from the entry into force of the Treaty of Lagos, under which the Community was established in May 1975. The trade liberalization program drawn up under the Treaty provides for gradual elimination of import duties and other tariff and nontariff barriers to intra-Community trade, as well as harmonization of external tariffs, over the period 1981–89. As part of this program, several studies have identified a number of impediments to the development of intraregional trade, one of which is the widespread controls and restrictions on exchange transactions throughout the Community that make inconvertible most of the 11 currencies of the member countries.[2] Currency convertibility in the region is therefore an important issue in the Community's efforts to remove obstacles to intraregional trade.

In November 1979, the Committee of Central Bank Governors of ECOWAS requested the ECOWAS Secretariat to undertake a study on the problems of currency inconvertibility in the Community. This decision was endorsed by the ECOWAS Council of Ministers at its meeting in Dakar, Senegal, which also took place in November 1979. Such a study was seen to be consistent with the overall objective of the Community—the integration of the economies of the 16 countries in an economic union. A formal request by the International Monetary Fund for technical assistance in the preparation of the study was approved by the Fund's Executive Board in May 1980.

[1] Benin, Cape Verde, The Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta. All members of the Community are members of the International Monetary Fund.

[2] Six countries (Benin, Ivory Coast, Niger, Senegal, Togo, and Upper Volta) are also members of the West African Monetary Union and share a common currency—the CFA franc.

Within the limitations imposed by data deficiencies, by differences in the stage of development of the member countries, and by the current balance of payments difficulties of several of those countries, the principal objectives of the study were:

1. To describe the existing exchange arrangements and exchange systems in the region and to review their effects on intra-Community trade and payments;
2. To assess prospects for achieving "limited convertibility" (defined here as intraregional convertibility) of currencies, with specific reference to prospects for liberalization and harmonization of exchange controls and restrictions, taking into account the long-term objective of monetary union within the Community;
3. To determine the conditions necessary for achieving convertibility within the Community, with particular reference to monetary and exchange rate policies, the balance of payments, and management of foreign exchange reserves;
4. To make recommendations for a "program of action" for the achievement of convertibility within the region as an initial step toward the longer-term goal of monetary integration.

Factual data for the study and the views of the member countries of the Community on the many complex issues were obtained from responses to a questionnaire prepared by the Fund staff and sent to all member countries of the Community in June 1980. The questionnaire sought specific information on the institutional framework in each member country, particularly on the exchange and trade arrangements and the financial system, on intraregional trade and procedures for settlements within the region, and on the main policy aspects involved in any move toward currency convertibility within the region. Responses to the questionnaire were received from all but one of the member countries.[3]

In order to amplify the responses to the question-

[3] A response on behalf of the six members of the West African Monetary Union was provided by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

naire, and more particularly to assess at first hand the problems relating to the achievement of convertibility within the Community, a Fund staff mission[4] visited seven member countries[5] during the period July 17-August 8, 1980. The seven countries were selected according to criteria that sought to provide comparisons on the basis of geographical spread, economic size, relative degree of development, and trading relationships with the former metropolitan countries. In each of the countries visited, the Fund mission held discussions with the Minister of Finance and the Governor of the Central Bank or with senior officials (in some cases those from Ministries of Trade or Commerce) and with representatives of commercial banks or trading companies and Chambers of Commerce. In addition to these discussions in individual countries, the mission met with officials of the African Center for Monetary Studies in Dakar, Senegal; the West African Clearing House in Freetown, Sierra Leone; and the ECOWAS Secretariat in Lagos, Nigeria. Throughout the discussions, the mission emphasized that it was seeking views on matters of a technical nature and that these views would not be presented in the report as those held by the authorities of particular member countries.

This paper is a revised version of the Fund staff team's preliminary report that was sent to the Community authorities in November 1980. Chapter II presents a general discussion of the concepts of convertibility, assessing various forms of currency convertibility in the context of short-run and long-run objectives of monetary integration and setting forth the requirements for monetary integration. Chapter III describes the present institutional arrangements of Community member countries, contrasting the approaches taken in individual countries to implement domestic and external economic policies. Chapter IV reviews the pattern of trade of the member countries, and Chapter V describes current Community arrangements for the settlement of financial transactions, as well as reviewing the role and functions of the West African Clearing House. Chapter VI summarizes the discussions conducted by the mission in the seven selected countries, focusing on the problems of convertibility for intra-Community trade, forms of monetary cooperation that would be appropriate for the Community, and the preconditions that would need to be met before the first phase of monetary integration could take place. Finally, Chapter VII sets forth the conclusions of the study and the recommendations for a program of action to achieve currency convertibility.

[4] The Fund staff team, consisting of the authors of this paper, was accompanied by Mr. R. D. Asante of the ECOWAS Secretariat and Mr. O. Diallo of the ECOWAS Fund.

[5] Ghana, Guinea, Guinea-Bissau, Ivory Coast, Nigeria, Senegal, and Sierra Leone.

II Concepts of Convertibility and Stages of Monetary Integration

This chapter considers concepts of convertibility and the meaning of convertibility under different exchange arrangements. It also reviews the benefits and costs of various stages of monetary integration.

Meaning of Convertibility

Currency convertibility can be defined as the ability to exchange one currency for another at a given conversion rate and in terms of the usability of a currency for foreign transactions. Various degrees of convertibility can be identified, ranging from the extremes of total convertibility to total inconvertibility. Total convertibility refers to the unrestricted exchange of the currency of a country into all other currencies without limitation on the usability of the currency for any foreign transaction. This would be achieved if the country had no exchange controls or restrictions vis-à-vis the rest of the world, as well as no quantitative or financial barriers to external transactions. By contrast, total inconvertibility refers to the complete inability, *de facto* and *de jure,* to exchange the currency of a country into any other currency or to use it for any foreign transaction. This would be the situation in a country that had instituted exchange controls and restrictions and/or quantitative or financial barriers that completely cut off all external transactions. Along this spectrum, the degree of convertibility of a currency can be identified by the effectiveness of exchange controls and restrictions and of quantitative or financial barriers to external transactions.

A currency may therefore have different degrees of convertibility vis-à-vis other currencies, depending on the ease with which it can be converted and the extent to which it can be used for foreign transactions. In practice differing degrees of exchangeability and usability of currencies define a currency's degree of convertibility. In this context and for the purposes of this study, "limited convertibility" refers to the unrestricted exchange and use of the currencies of countries within a region, as would be the case if all exchange controls and exchange restrictions within the region were eliminated.[6]

Under the Second Amendment of the Fund's Articles of Agreement, which became effective April 1, 1978, the concepts of "a convertible currency" and "currency convertible in fact" disappeared.[7] Nevertheless, "it remains a purpose of the Fund that members should undertake to perform the obligations of convertibility under Article VIII, among which the obligations relating to market convertibility are of leading importance."[8]

In the context of Article VIII, Section 4*(a),* the convertibility of foreign-held balances is determined by the condition that:

> *(a)* Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents:
> (i) that the balances to be bought have been recently acquired as a result of current transactions, or
> (ii) that their conversion is needed for making payments for current transactions.
> *(b)* The buying member shall have the option to pay either in special drawing rights, subject to Article XIX, Section 4, or in the currency of the member making the request.

There are a number of conditions under which this obligation does not apply. In terms of Article VIII, Section *4(b),* they do not apply when:

> (i) the convertibility of the balances has been restricted consistently with Section 2 of this Article or Article VI, Section 3;

[6] These countries could, however, continue to maintain some restrictions on transactions for trade or invisibles, or capital flows, so that, although the currencies of the region were fully exchangeable, they would be usable only for a defined range of transactions.

[7] See Joseph Gold, *Use, Conversion, and Exchange of Currency Under the Second Amendment of the Fund's Articles,* IMF Pamphlet Series, No. 23 (Washington, 1978), p. 2.

[8] See Joseph Gold, "Convertible Currency Clauses Under Present International Monetary Arrangements," *Journal of International Law and Economics,* Vol. 13 (February 1979), p. 252.

(ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;
(iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;
(iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(a); or
(v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

The Commentary in the *Proposed Second Amendment to the Articles of Agreement: A Report by the Executive Directors to the Board of Governors* (IMF, Washington, March 1976) points out that these provisions would not be operative in a period of market convertibility.

The requirements for satisfying the conditions of Article VIII, Section 4, differ in at least three respects from the requirements for total convertibility. First, under Article VIII a currency is not necessarily exchangeable for the currency of any other country. What is involved is a commitment on the part of each Fund member to buy any balances of its own currency acquired by another member, subject to various provisions, in special drawing rights (SDRs) or in the currency of the country requesting payment. Second, the amounts presented for conversion are limited to those acquired through current transactions. Amounts acquired through capital transactions are not covered under Article VIII, nor will any controls on capital transactions result in a violation of the convertibility of foreign-held balances in the sense defined by the Fund. Third, since Article VIII refers only to exchange restrictions, it follows that quantitative or financial barriers, such as tariffs or surcharges, export taxes, levies on transfers, export or import quotas, do not violate the convertibility of foreign-held balances according to Article VIII.[9]

The Second Amendment introduced the concept of a "freely usable currency." This is defined in Article XXX(/): "A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets." This definition applies, of course, to the operations of the Fund.[10] From an economic point of view, a "freely usable currency," as defined, may be regarded as involving a type of convertibility that relates closely to the importance of the currency in international transactions.

Table 1 shows four entries on a convertibility scale. In principle, there could be an infinite number of gradations of convertibility. For illustrative purposes, the four entries shown in Table 1 indicate how the gradations of convertibility can be entered into the matrix.

Some concepts of convertibility are meaningful only under very special conditions. For example, the concept of limited convertibility, as defined above, refers

[9] See Joseph Gold, *Use, Conversion, and Exchange of Currency* (cited in footnote 7), pp. 4-7 and 26-31.
[10] This is not to suggest that currencies not so identified by the Fund would not be usable in practice.

Table 1. Degrees of Currency Convertibility and the Effect on Transactions

	Total Convertibility	Article VIII Convertibility	Limited Convertibility	Total Inconvertibility
Current transactions				
Trade	No exchange or trade restrictions	No exchange restrictions; possible trade restrictions	Possible exchange and trade restrictions 1	Comprehensive exchange and trade restrictions
Invisibles	No exchange or invisibles restrictions	No exchange restrictions; possible invisibles restrictions	Possible exchange restrictions;1 no invisibles restrictions 1	Comprehensive exchange and invisibles restrictions
Capital transactions	No restrictions	Possible restrictions	Possible restrictions	Comprehensive restrictions
Convertible into all currencies	Yes	Not necessarily	No	No
Convertible into some defined set of currencies 2	Not applicable	Not applicable	Yes	Not applicable

1 Only vis-à-vis countries outside the region. No exchange restrictions would be applicable within the region.
2 The defined set of currencies would be the regional currencies.

to the unrestricted exchange and use of the currencies within a region. If the countries of an economic community maintain exchange restrictions of varying intensity (and thus have currencies with differing degrees of convertibility), the dismantling of all exchange restrictions on intracommunity transactions in order to establish limited convertibility would have important implications for the overall balance of payments positions of the individual countries.

Differing degrees of convertibility of currencies, as indicated by the restrictiveness of the exchange system, generally reflect differences in the magnitude of a country's balance of payments problem. Payments deficits, if sustained over a period, normally result in an increasingly overvalued currency. When there is a move toward limited convertibility and all obstacles to exchange transactions within the region are removed, the community as a whole becomes effectively one market in terms of exchange transactions. In this situation, transactors will seek to move out of overvalued currencies into other regional currencies whose exchange rates reflect more accurately the underlying price relationships. Typically, the latter currencies are those of countries having the least severe exchange restrictions and thus the most pressure to keep prices in line with those in world markets. A dismantling of exchange restrictions within the region would therefore be accompanied by a move into the regional currencies that have the highest degree of convertibility. In other words, the highly convertible currencies act as a conduit for the external transactions of the community as a whole, with negative consequences for the balance of payments of countries with weak currencies.

To avoid such problems in establishing limited convertibility, the regional group of countries must adopt a uniform degree of convertibility vis-à-vis the rest of the world. Therefore, countries with highly restrictive exchange systems would be expected to achieve the same degree of liberalization as the least restrictive countries. This uniform degree of convertibility can be termed "full convertibility," which would be assumed to lie somewhere between convertibility under Article VIII and total convertibility. Accordingly, when one (or more than one) country in the region eliminates exchange restrictions for transactions vis-à-vis all other countries, or is totally free of such restrictions, it will be necessary for all other countries of the region to completely dismantle their exchange restrictions.

Convertibility to any degree is compatible with any form of exchange arrangements, the latter being defined as the exchange rate system by which the value of the home currency is determined vis-à-vis foreign currencies. Various forms of exchange arrangements are open to each individual country: (1) a flexible arrangement involving a managed or independent float; (2) pegging to the SDR; (3) pegging to another basket of currencies; or (4) pegging to an individual currency. Article IV, Section *2(b),* of the Fund's Articles states:

> Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

Not all forms of exchange rate systems would be available to countries upon their entry into a monetary union, which is generally identified by two characteristics that are expected to be of a permanent nature: (1) the currencies of all member countries should be fully convertible within the union; and (2) a fixed exchange rate should be established between the currencies of the member countries, or one currency should be issued for all union members.

Table 2 shows the degree of compatibility between exchange arrangements for individual countries and the possible exchange arrangements under a monetary union. The monetary union may choose any of the four exchange arrangements listed above, since the union would be considered as one country by the rest of the world. These four arrangements are shown as options 3, 4, 5, and 6 in the compatibility matrix. Options 1 and 4 are closely linked since, if all currencies peg to the SDR, there would automatically be a fixed relationship between their currencies. Similarly, options 2 and 6 are virtually identical, with some qualification. No allowance is made for differences that may arise as a result of the setting of margins around a peg. For

Table 2. Compatibility of Exchange Arrangements in Individual Countries and Under a Monetary Union [1]

	Exchange Arrangements in a Monetary Union			
Individual Exchange Arrangements	Floating	Peg to a currency basket	SDR peg	Common currency peg
Floating	0	0	0	0
SDR peg	0	0	1	0
Peg to a currency basket	0	0	0	0
Common currency peg	0	0	0	2
Peg currencies to one another at predetermined rates	3	5	4	6

[1] Zero means no compatibility.

example, if countries within the monetary union pegged their currencies to the SDR within a margin of, say, +2 per cent for each currency, the system would differ from one in which currencies within the union were pegged to one another with no margins and were allowed simultaneously to fluctuate by 2 per cent around the SDR. Also, if a fixed exchange rate is established among currencies of members as a result of individual decisions to peg to the SDR or to a common currency, there would be no assurance of permanence in the cross rates between those currencies.

Preconditions for Convertibility and Gradations of Monetary Cooperation

The process of monetary integration can be viewed as the movement from a situation where each country or subset of countries within a region has its own separate currency and exchange arrangement, with differing degrees of convertibility, to one where all countries within a region share a common currency and, consequently, a unified exchange arrangement. The move toward monetary integration should be a gradual one in order to ensure that the costs of such a move are minimized while the benefits are maximized. As noted above, the establishment of limited convertibility would cause balance of payments problems unless full convertibility is established for all the currencies in the region vis-à-vis the rest of the world. Accordingly, the preconditions for monetary integration need to be carefully set forth. They relate essentially to measures needed to achieve full convertibility vis-à-vis the rest of the world for the currencies of the countries that are expected to enter into a monetary union. Since differences in the degree of convertibility or inconvertibility of currencies in the region generally reflect differences in the external positions of those countries, policies of adjustment would have to be adopted by each country to restore balance of payments equilibrium. For the most part, in the preconditions phase there would be little need for harmonization of current policies as the balance of payments problems of each country would be different.

The policy instruments to be used for adjustment are the traditional ones of demand and supply management, tailored to the specific situation in each country and having a specific time horizon. The imbalance in the external sector can be addressed by appropriate exchange rate changes, accompanied by measures to restrain the growth in demand while stimulating the growth in supply. Monetary, fiscal, incomes, and investment policies can be brought to bear upon aggregate demand and supply, in accordance with the institutional arrangements and the economic and social priorities of the country, in order to achieve a reasonable degree of external balance.

Depending on the extent of imbalance in the external sector, adjustment may be both sizable and prolonged and the measures to be taken over a particular period may require a major effort. During the program period the country would seek to liberalize its exchange system progressively so that, upon the complete dismantling of restrictions, it would achieve full currency convertibility, both *de jure* and *de facto*.

With the establishment of full convertibility, countries in the region could commence the process of monetary integration in stages, which can be viewed as gradations of monetary cooperation. Three phases of integration can be specified, in which the participating countries first could enter into a convertibility agreement, to be followed by the establishment of a partial monetary union and then by the institution of a full monetary union. Under a convertibility agreement, each country would be allowed to continue its own exchange arrangement, as long as it agreed to exchange without restrictions the currency of any other country in the region at rates to be determined by the cross rates between that currency and the rate prevailing between each currency and that of the reference (or intervention) currency. For purposes of discussion in the next section, it is assumed that countries in the region would not select a uniform exchange arrangement under such a convertibility agreement. In the second phase, a partial monetary union would come into being when, in addition to the convertibility agreement, irrevocably fixed exchange rates are established between the currencies of the members of the community. In such a union, a unified exchange rate arrangement for the community as a whole must be selected, but each country would maintain its own currency and its separate monetary authority. The final phase would involve a full monetary union in which individual currencies within the region were abolished and replaced by a single currency issued by one central monetary authority.

A Convertibility Agreement

In order to assess the benefits and costs associated with a convertibility agreement, it is assumed that the preconditions for full convertibility have been satisfied and that the external position of the countries is in approximate balance, permitting them to eliminate all exchange and other restrictions on external transactions without undue pressures on their foreign exchange reserves. Each country would maintain its own exchange arrangement.

One important benefit from a convertibility agreement is the long-run potential for expansion of trade. In the short and medium term, trade is determined primarily by the production structure and by infrastructural facilities. However, the move toward full convertibility of currencies would encourage traders to look across regional boundaries for new trading opportunities, thereby leading to the development of more diversified production structures for meeting regional demand and to the improvement of infrastructural regional facilities. Over time, intraregional trade should increase both relatively and in absolute terms.

Full convertibility under a convertibility agreement would also have a beneficial effect on investment within the region because of the overall improvement in resource allocation. When assured of the convertibility of currencies in the region, investors would seek investment opportunities with the highest return in various countries and, by doing so, contribute to more efficient resource utilization. To the extent that they perceive the region as a whole as a potential market (only possible if the currencies are convertible), investors would direct their investments into projects designed to meet the demands of the region. Furthermore, the improved allocation of resources should result not only from the movement of capital but also from the setting of the exchange rate at or near its equilibrium level in order to achieve convertibility. As a result, investment decisions would be based on the appropriate price indicators. The improvement in resource allocation, together with the accelerated investment within the region, would thus lead to an acceleration in the growth rate of the region.

Another probable beneficial effect of full convertibility is a reduced need for foreign exchange reserves. If full convertibility requires a country to maintain an exchange rate consistent with external balance, the need for surplus reserves to support a disequilbrium exchange rate would be eliminated.[11]

The costs of full convertibility arise mainly from the constraints on the conduct of economic policy. The flexibility of the exchange rate as a policy instrument is greatly reduced because the rate must be determined in light of current market conditions. For developing countries undergoing rapid structural changes, it may be inappropriate to do this. In this respect, a distinction can be drawn between short-run and long-run equilibrium exchange rates. Although the short-run rate equilibrates the current account position of the country, a currency depreciation that may be required for this purpose could interfere with the investment efforts of the country and might contribute to pressures on prices. On the other hand, the long-run equilibrium rate would provide some stability until the completion of the investment effort, at which time the short-run exchange rate and the long-run exchange rate would coincide. This does not imply that full convertibility runs counter to the growth objectives of member countries. Rather, it is necessary to indicate the need to establish an exchange rate which, through the investment programs and the probable generation of a surplus on the capital account, will work to improve the current account position of the country over the long term.

A convertibility agreement implies that participating countries have a long-term commitment not to reintroduce exchange restrictions for intracommunity transactions. As a result, they are obliged to adopt monetary and fiscal policies that are consistent with a sustainable degree of external balance. Thus, in turn, certain constraints are imposed on the use of monetary and fiscal policy instruments by individual countries.

A Partial Monetary Union

A partial monetary union constitutes a further phase of monetary integration in which members of the union set fixed exchange rates between their currencies. Even though the exchange rates are declared to be fixed or irrevocable, a certain element of uncertainty remains because, as long as countries issue their own separate currencies, it is possible that a country may at some time separate from the union or change its exchange rate. Thus, a "fixed rate" in this context can be taken to mean that it would be changed only under exceptional circumstances.

The benefits of entering into a partial monetary union relate largely to the lessening of the exchange rate risk inherent in a convertibility agreement. Individuals would carry out their transactions, knowing that the exchange rates of the currencies of the union members have been declared as fixed and are not expected to change over time. The reduced risk would be a positive factor for trade, both within the region and with the rest of the world, contributing to increased capital flows and to improved allocations of resources.

On the other hand, in comparison with a convertibility agreement, a partial monetary union necessarily entails less flexibility in the application of economic policies. Since exchange rates are fixed, it is not possible for member countries to adopt divergent financial policies, because such divergence would be reflected in pressures in their external positions. If an external

[11] Some offset to the reduction may occur because of a rise in the volume of transactions.

imbalance arises in a participating country through a divergence in policies or exogenous factors, the burden of adjustment falls more heavily on internal demand and supply management policies because the opportunity to apply the exchange rate instrument has been forgone.

Another important cost of entering into a partial monetary union relates to regional development problems. These have two facets: (1) the least developed countries in the group could be forced to follow austere financial policies that may adversely affect investment and economic growth; and (2) there could be a tendency for capital to flow to countries that are at a higher stage of development—those characterized by a more advanced infrastructure and the presence of industries that provide external economies for any new industries. In such circumstances, the region might experience accelerated growth in the more developed countries and stagnation, or perhaps a slowdown in economic growth, in the others.

The need for member countries to maintain foreign exchange reserves could be greater in a partial monetary union than under a convertibility agreement. Under a convertibility agreement, a country with a balance of payments disequilibrium can use the exchange rate as an instrument of adjustment. By contrast, the member countries of a partial monetary union acting individually cannot freely use the exchange rate to complement other policy measures aimed at external adjustment. Thus, adjustment might have to be effected over a longer period and could require greater reserves.

Another important factor in the establishment of a partial monetary union is the choice of a unified exchange arrangement. Whichever arrangement is chosen, there will be different costs and benefits for each country within the region. Overall, most countries would benefit from a reduction in the impact of internal and external shocks on any one country, as the effects of any shock would tend to be spread across the participating countries. However, the adoption of a floating rate for the union as a whole might increase the exchange risk of trade for countries that were previously pegged to the currency of a major country and were carrying out a substantial part of their external transactions with that country. On the other hand, for some countries the adoption of a peg to the currency of a major trading country might open up new trading opportunities. Without considering the specific circumstances of each country, it is not possible to determine the exchange arrangement that would be most appropriate for the union as a whole. In such a choice, a conflict might arise between the overall welfare of the monetary union and the welfare of individual countries.

A Full Monetary Union

A full monetary union entails the issuance of a single currency for all participating countries. All exchange rate risks within the union are totally eliminated and, consequently, intraregional trade and intraregional capital flows would be facilitated even more than they would be under a partial monetary union. Likewise, resource allocation would be more efficient and economic growth would be enhanced. In addition, no single member country would need to hold foreign exchange reserves for the financing of intraregional transactions. Accordingly, there might be less need for exchange reserves than there would be under a partial union.[12] Of course, individual countries would have some disadvantages in a full monetary union. First, the member countries would lose autonomy in the conduct of their monetary policies. Second, a country's option of issuing currency for financing fiscal deficits would be constrained by the policies of the central monetary authority. Third, the problem of divergent growth rates of countries entering the union at different levels of economic development would be aggravated even more than in a parital monetary union or under a convertibility agreement. Fourth, there would be institutional costs in the setting up of a regional monetary authority.

As in the case of a partial monetary union, it would be necessary to choose an exchange rate system for the union as a whole. As noted earlier, the costs and benefits to the various countries would differ considerably and, for each individual country, would not necessarily be the same as the net benefit accruing to the union as a whole.

[12] A saving in the use of reserves for settling intraregional balances could also occur if an appropriate and efficient regional clearing mechanism operates under a convertibility agreement or a partial monetary union.

III Institutional Arrangements in the Member Countries of the Community

Basic Data and Economic Policy Environment

The scope for economic integration, and the optimal path toward it, are determined to an important extent by the relative size of the economies involved and, even more so, by the countries' economic policies and their use of alternative policy instruments. This chapter examines these requirements as they relate to the Economic Community of West African States.

Table 3 presents comparative economic statistics on the size of the member countries of the Community and their external positions. Important differences are found in terms of population, physical size, and overall and per capita income—differences that not only relate to the overall structure of demand but also to export potential and the structure of foreign trade.

The balance of payments data shown in Table 3 indicate that almost all member countries of the Community have experienced serious payments difficulties in recent years. The payments problems of these countries are reflected in the relatively low ratios of reserves to imports in the last column of Table 3.

General Orientation of Economic Policy

Significant differences among member countries of the Community are found not only in the relative size, but also in the overall approach to economic policy and in the use of policy instruments, notably those for monetary policy. While all members of the Community have some form of development planning, the degree of official intervention in the economic process differs appreciably from country to country. Generally, three approaches to planning exist in the Community. The first involves comprehensive planning of the entire

Table 3. ECOWAS: Comparative Basic Data

			1978 Gross National Product		Balance of Payments [1]			
					Current account			
Country	1978 Population *(In millions)*	Area *(In thousand square kilometers)*	Total *(In millions of U.S. dollars)*	Per Capita *(In U.S. dollars)*	*(In millions of SDRs)*	*(As percentage of GDP)* [2]	Overall balance *(In millions of SDRs)*	Gross official reserves *(In months of imports)*
Benin	3.3	113	759	230	-58.4	-9.9	-9.6	1.1
Cape Verde	0.3	4	78	260	-6.2	—	-2.0	7.8
Gambia, The [3]	0.6	11	108	180	-93.9	-31.5	-28.2	1.2
Ghana	11.0	239	4,290	390	-38.5	-0.1	-88.5	4.4
Guinea	5.1	246	1,071	210	-148.0	-7.9	-101.5	1.2
Guinea-Bissau [3]	0.9	36	153	170	-40.8	—	-4.5	3.3
Ivory Coast	7.8	322	6,552	840	-756.3	-7.9	-200.0	1.1
Liberia	1.7	111	782	460	-103.8	-12.5	-25.2	0.6
Mali	6.3	1,241	756	120	-59.5	-4.8	-7.4	0.5
Mauritania	1.5	1,031	405	270	-179.0	-46.9	-27.0	3.2
Niger	5.0	1,267	1,100	220	-40.4	-2.8	13.6	5.8
Nigeria	80.6	924	45,136	560	149.0	-4.3	1,207.0	2.3
Senegal	5.4	196	1,836	340	-239.8	-10.2	-94.2	0.2
Sierra Leone	3.3	72	693	210	-87.0	-13.3	-32.2	1.4
Togo	2.4	56	768	320	-197.5	-17.1	-18.1	2.1
Upper Volta	5.6	274	896	160	-64.8	9.0	-28.0	1.7
Total	140.8	6,143	65,383	464[4]				

Sources: World Bank, *World Development Report, 1980;* and Fund staff estimates.

[1] Data represent 1977 figures for Guinea-Bissau and Niger; 1978 figures for Benin, Cape Verde, The Gambia, Ghana, Guinea, Liberia, Mali, Mauritania, Togo, and Upper Volta; and 1979 figures for Ivory Coast, Nigeria, Senegal, and Sierra Leone.

[2] Average of 1977-79 figures.

[3] Data on population and GNP represent 1979 figures.

[4] Weighted average. Arithmetic average is 309.

economy, in some cases extending to individual enterprises. This approach is often accompanied by public ownership of the major firms in industry, commerce, and finance, as well as by the predominance of cooperative agricultural production over private production. Countries that appear to fall in this category of comprehensive planning are Benin, Cape Verde, Guinea, and Guinea-Bissau, whose economic policy generally involves a rather heavy reliance on official intervention, notably by price controls. This is also the case in Ghana where, however, planning is less comprehensive and public ownership is less prevalent.

A second group of countries also relies heavily on overall economic planning, but these countries confine themselves largely to macroeconomic planning. Moreover, only strategic enterprises, such as power companies and major productive firms, are partly or fully owned by the government. Moreover, price controls are the exception rather than the rule. Countries belonging to this group are primarily the member countries (except Benin) of the West African Monetary Union, as well as two other French-speaking member countries of the Community (Mali and Mauritania). Their approach to economic planning in many respects resembles the French system of "planification."

Countries in a third group rely to a large extent on the operation of market forces and private initiative, although public ownership of selected enterprises is not excluded. The reliance on market forces does not imply that development planning and price controls are completely absent. Planning is concentrated primarily on public sector expenditures and on moderate fiscal incentives aimed at influencing the structure of private sector investment and production, while price controls are often limited to strategic commodities and are in some cases applied to certain phases of the business cycle only. Countries in this category are The Gambia, Liberia, Nigeria, and Sierra Leone.

Monetary Policy

The different approaches to economic policymaking described above are reflected in different uses of, and reliance on, economic policy instruments, notably those for monetary policy. Generally, countries with a non-market approach to planning rely fully on quantitative control mechanisms, such as overall and sectoral credit ceilings. The former are applied primarily as stabilization and balance of payments instruments, while the latter aim at development through their effect on the allocation of financial resources available for investment. By contrast, pricing mechanisms in monetary policy, such as the use of variable deposit rates and frequent adjustments in the cost of credit, are very rarely employed in these countries. Both deposit rates and lending rates are generally fixed as absolute values, with no margin, and cannot be changed by individual financial institutions. Charges and commissions of banks are also largely fixed by the monetary authorities.

The member countries of the West African Monetary Union form a special subgroup within the Community and have a common currency, the CFA franc, which is issued by a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) with headquarters in Dakar, Senegal. The BCEAO has regional offices in all member countries of the Union. The common currency is accompanied by relative conformity in the financial system in these countries, as well as in the design and use of monetary policy instruments. The broad objectives of the Union's monetary policy are first formulated by the Council of Ministers, and within the framework of these objectives, the Executive Board of the BCEAO defines the exact assignment and use of various monetary policy instruments in the Union. Monetary policy encompasses the control of overall liquidity in the economies of the member countries. Three factors determine the amount of liquidity injected into the system: (1) estimated overall economic activity; (2) expected developments in the balance of payments; and (3) the desired amount of foreign exchange holdings of the monetary authority. The most important instruments of liquidity control are overall and sectoral credit ceilings. Although the overall credit limit for each member country of the Union is established by the Executive Board of the BCEAO, the allocation of this credit to the government, the treasury, and the financial institutions of each member country, as well as the allocation by sector and purpose, is left to the respective National Credit Committees. The statutes also provide for control of overall liquidity through adjustments in required reserve ratios. In addition to strictly quantitative controls in the form of maximum levels of credit and its allocation, the BCEAO also makes use of pricing mechanisms to influence the level of liquidity and its allocation. These mechanisms include, in particular, normal and preferential rediscount rates and adjustments in deposit and lending rates. Interest rates in the official money markets within the Union are influenced by market forces, although the BCEAO intervenes frequently to stabilize these rates so that they compare with foreign rates.

On balance, therefore, the monetary policy of the Union may be said to consist of an intricate system of credit controls, which are used to achieve an appropriate balance between the objectives of economic stability, balance of payments equilibrium, and bal-

anced economic development. It thus responds rather flexibly to the demand for credit and allows substantial freedom for the working of market forces.

Although not a member of the Union, Mali has a similar approach to the design of monetary policy. Mali has taken some steps to align its monetary policy with that of the Union. Mauritania in many respects also follows an approach to monetary policy similar to that of the Union. In addition to implementing credit controls, Mauritania often makes use of changes in the liquidity ratios imposed on commercial banks for control of domestic liquidity.

Among other member countries of the Community, Ghana places heavy emphasis on quantitative controls, such as overall and selective credit ceilings, although these controls are less formal than those in the Union and less comprehensive than those in the less market-oriented countries of the Community. Credit controls in Ghana focus on bank credit to the private sector and do not usually cover the public sector. Apart from the use of quantitative controls, the Bank of Ghana operates through moral suasion or, where this is ineffectual, by outright interdiction of certain banking operations. Interest rates have been sparingly used as an instrument of policy. Changes in required reserve ratios have also been applied by the Bank of Ghana. These ratios are, however, not generally used to control money supply but to assure the liquidity of the banking system. Control of the money supply has more frequently relied on special deposits by banks to be held with the central bank.

The remaining countries of the Community (The Gambia, Liberia, Nigeria, and Sierra Leone) have largely relied on traditional monetary policy instruments, which are primarily used for the control of the overall supply of money rather than for a specific allocative function. Of these countries, Nigeria has probably leaned most heavily on the use of overall and sectoral credit ceilings and guidelines, while The Gambia and Liberia traditionally have not applied them. Sierra Leone has used them infrequently. The monetary authorities in The Gambia and Liberia have given priority to reserve requirements and discount and advances policies for the control of overall liquidity. Interest rate policy has also been applied actively in these two countries, as well as in Nigeria, but it is less frequently used in Sierra Leone, where monetary policy relies more often on the imposition of liquidity ratios. Nigeria has also depended on special deposits and on the compulsory purchase by banks of stabilization securities for the control of domestic liquidity.

It is clear that the approaches vary greatly within the Community in regard to the use of monetary policy instruments. Equally, it is obvious that the differences in policy environment have an important bearing on the expectations of economic agents in the member countries of the Community, influencing both the direction and strength of their responses as well as the speed of adjustment.

Fiscal Policy

Table 4 indicates broad approaches to fiscal policy by the member countries of the Community, reporting

Table 4. ECOWAS: Government Revenue, Expenditure, and Deficit Finance [1]
(In per cent)

	Government Current Domestic Revenue		Government Expenditure		Percentage Shares in Financing the Fiscal Deficit		
						Domestic	
	Tax	Nontax	Current	Capital	Foreign	Banking	Other
Benin	94	6	53	47	319	−296	77
Cape Verde	82	18	—	—	78	22	0
Gambia, The	67	33	47	53	77	23	0
Ghana	90	10	80	20	4	77	19
Guinea	59	41	54	46	−1	101	0
Guinea-Bissau	61	39	75	25	79	24	−3
Ivory Coast	67	33	54	46	114	−22	8
Liberia	89	11	44	56	43	37	20
Mali	93	7	94	6	54	23	23
Mauritania	65	35	92	8	95	−6	11
Niger	83	17	68	32	—	137	−37
Nigeria	74	26	37	63	56	13	31
Senegal	97	3	88	12	−85	110	75
Sierra Leone	92	8	56	44	51	46	3
Togo	96	4	54	46	15	25	60
Upper Volta	89	11	87	13	0	247	−147

Source: Fund staff estimates.

[1] Data represent 1978 figures for Benin, Cape Verde, Guinea, Guinea-Bissau, Ivory Coast, Mali, Mauritania, Togo, and Upper Volta; and 1977/78 figures for The Gambia, Ghana, Liberia, Niger, Nigeria, Senegal, and Sierra Leone.

governments' current domestic revenue (tax revenue and nontax revenue), government expenditure (current and capital), and the method of financing governments' deficits. The data show important differences among member countries in these areas of fiscal policy. For example, the reliance on nontax income as a source of government revenue ranges between 41 per cent (in Guinea) and 3 per cent (in Senegal). The share of capital expenditure in total government expenditure is as high as 63 per cent in Nigeria but as low as 6 per cent in Mali. Finally, important differences are found in the financing of fiscal deficits. While some countries rely heavily on foreign sources of finance, others depend mainly on the domestic banking system, primarily the central bank. These differences have important consequences for the relative balance of payments position, for the degree of domestic money creation and thus inflation, and ultimately for the prospects for economic growth. The large divergences in approaches to fiscal policy have without doubt contributed to the differences in payments positions of member countries and have thus greatly influenced the effective convertibility of currencies in the region.

Financial Sector Size and Claims on Government

The size of central banks' assets relative to those of deposit money banks is an indication of the decentralization of financial intermediation and its delegation to individual financial institutions that have direct contact with savers and investors. Table 5 shows important differences in the relative size of these assets among member countries. Column 3 of Table 5 indicates that the division of labor and decentralization in the financial system are most advanced in Ivory Coast and Senegal, each having a coefficient of central bank assets to deposit money bank assets of 0.30. At the other extreme are countries like Ghana and Sierra Leone, with coefficients of 1.59 and 1.38, respectively, where the central bank clearly dominates financial sector activities. In Cape Verde and Guinea-Bissau, the central bank is also the only deposit money bank. Column 4 indicates that the relative size of the central bank is more often than not correlated with the importance of its claims on the government as a proportion of total assets. The greater the government's reliance on the central bank for financing the fiscal deficit, the larger is the relative size of the central bank.

Another indicator of the diversity of the financial systems of the Community is the percentage of central banks' net claims on government as a percentage of the financial system's total net claims on government. In the two countries where there is only one combined central and commercial bank (Cape Verde and Guinea-Bissau), the financial system is essentially formed by this bank alone and the net claims amount to 100 per cent.[13] In all other countries the government's domestic credit needs are also partly satisfied by deposit money banks. Column 5 of Table 5 indicates that in the majority of the member countries the central bank meets more than half of the domestic credit needs of the government.

Money and Capital Markets

As might be expected in countries at the present stage of development of the member countries of the Community, formal money and capital markets either do not exist or are at a relatively early stage. Official money markets are found only in the member countries of the West African Monetary Union and in Nigeria. Money markets in the Union are organized by the central bank and function at two levels—first, at the level of the principal agencies of the BCEAO in each country, and second, at the level of the Union as a whole (i.e., at the BCEAO headquarters). Operations cover day-to-day transactions and term transactions of one month's and three months' duration. Interest rates generally follow those in foreign markets, notably in France. Money market operations take place in each of the member countries of the Union but are clearly concentrated in Ivory Coast and Senegal.

An institutionalized money market has been operating in Nigeria for only a few years. Previously, banks traded overnight and term money in informal interbank operations. Informal money markets are found in The Gambia, Ghana, Liberia, and Sierra Leone, where some interbank lending operations on a term basis take place between banks. Also, the central banks in these countries generally stand ready to supply liquidity on a short-term basis in case of shortages, and they occasionally trade in short-term treasury bills or similar government paper. No formal or informal money market arrangements are found in the remaining member countries of the Community.

Stock exchange facilities exist only in Nigeria and Ivory Coast. In Nigeria the stock exchange has a history of almost 20 years. Since the early 1970s, and particularly after the oil boom, activity has accelerated because the stock exchange benefited from the high

[13] In Benin the net claims also amount to 100 per cent, since in 1979 there was no lending by deposit money banks to the Government.

Table 5. ECOWAS: Relative Size of the Central Bank and Importance of Its Net Claims on Government [1]

(In millions of national currency units and per cent)

	Assets			Central Banks' Net Claims on Government	
	Central bank (1)	Deposit money banks (2)	(3) = (1)/(2)	As percentage of central bank assets (4)	As percentage of financial system's net claims on government (5)
Benin	21,800.0	52,000.0	0.42	16	100
Cape Verde	2,100.0[2]	—	—	5	100
Gambia, The	95.5	104,880.0	0.91	41	89
Ghana	5,303.2	3,338.9	1.59	79	86
Guinea	12,043.0	13,261.0	0.91	5[3]	6[3]
Guinea-Bissau	1,329.0[2]	—	—	84	100
Ivory Coast	237,600.0	790,100.0	0.30	−9	−64
Liberia	95.1	228.1	0.42	74	95
Mali	198,300.0	159,400.0	1.24	50	98
Mauritania	8,863.0	8,672.0	1.02	18	99
Niger	40,300.0	73,800.0	0.55	−18	50
Nigeria	5,454.3	6,986.9	0.78	45	61
Senegal	92,300.0	263,300.0	0.30	3	96
Sierra Leone	282.9	204.7	1.38	70	77
Togo	34,500.0	72,900.0	0.47	32	76
Upper Volta	20,300.0	63,600.0	0.32	−27	74

Sources: IMF, *International Financial Statistics;* and Fund staff estimates.

[1] Data represent September 1979 figures for Benin, Ivory Coast, Liberia, Niger, Nigeria, Senegal, Togo, and Upper Volta; December 1979 figures for Cape Verde, Guinea, and Guinea-Bissau; and December 1978 figures for The Gambia, Ghana, Mali, Mauritania, and Sierra Leone.

[2] Estimates. The central bank is also the deposit money bank.

[3] Combined net claims on government and state enterprises.

rates of return on shares, which compared favorably with rates on other financial assets. Activity on the stock exchange of the Ivory Coast has expanded appreciably since its establishment in April 1976. Transactions on the Abidjan stock exchange cover the initial offering of bonds and shares, as well as secondary market activities in these assets. In Ghana the National Trust Holding Company performs some functions of a stockbroker and dealer, but no formal arrangements have yet emerged.

Exchange and Trade Arrangements

The restrictiveness of a country's exchange system is the most important indicator of the degree of currency convertibility permitted by the national authorities. The Appendix to this paper describes the exchange systems of the member countries of the Community and explains their restrictions on foreign exchange transactions. An analysis of the exchange systems shows great differences among the individual countries in the scope and stringency of exchange controls and restrictions. At the one extreme is Ghana, where essentially all foreign exchange transactions, both current and capital, are subject to controls by the monetary authority, where large payments arrears exist, and where most foreign exchange transactions are subject to quantitative restrictions. A detailed foreign exchange budget is prepared annually and is revised throughout the year as new information becomes available. Only most urgently needed imports are accorded a high priority and are assured of the availability of foreign exchange; the importation of all other goods is subject to at least occasional quantitative restrictions or delays in the allocation of foreign exchange. Exchange controls and restrictions in Guinea and Guinea-Bissau, although not as stringent as those in Ghana, are nevertheless comprehensive. Both countries also incur payments arrears. The tight exchange controls and the prevalence of exchange restrictions in all three countries, as well as in Sierra Leone and Mauritania, which also have payments arrears, are evidence of the inconvertibility of the currencies of these countries.

The Gambia, the Operations Account countries within the Community (that is, the member countries of the Union and Mali), and Liberia maintain more liberal exchange systems and have a higher degree of currency convertibility than Ghana, Guinea-Bissau, Mauritania, and Sierra Leone. While the Gambian dalasi cannot yet be considered convertible *de facto,* the exchange system of The Gambia is relatively free of exchange controls and restrictions. The convertibility into the French franc of the currencies of the Operations Account countries within the Community—the CFA franc and the Mali franc—is assured by

France under an agreement between France and these countries. The guarantee holds, however, only within the limits of the Operations Account and is linked to the meeting of certain policy requirements agreed upon between these countries and France. The system of exchange controls and restrictions in these countries typifies a formally convertible currency system, at least in regard to current and capital transactions with France, Monaco, and the Operations Account countries. However, exchange controls apply to transactions with other countries.

At the other extreme of the spectrum is Liberia. Since the U.S. dollar, a fully convertible currency, is legal tender in Liberia, the Liberian dollar is fully convertible, although Liberia has not accepted the obligations of Article VIII of the Fund's Articles of Agreement. Liberia's exchange system is clearly the most liberal in the Community.

Tariff Liberalization

The ECOWAS Treaty, which was signed in Lagos on May 28, 1975, states the purposes of the Community. Article 2 stipulates in subsection 2:

> . . . the Community shall by stages ensure:
> (a) the elimination as between the Member States of customs duties and other charges of equivalent effect in respect of the importation and exportation of goods;
> (b) the abolition of quantitative and administrative restrictions on trade among Member States;
> (c) the establishment of a common customs tariff and a common commercial policy toward third countries; . . .

In the Treaty's Chapter III on Customs and Trade Matters, these general purposes are explained in detail. Article 12 calls for the progressive establishment of a customs union among the member states, together with a common customs tariff in respect of all goods imported from third countries. Article 13 presents a phased program for the elimination of internal customs duties and similar charges on products originating from member states, as well as for the elimination of quantitative restrictions on "Community goods," as defined by Article 18. Article 13, Section 2, envisages a duty standstill period of two years after the entry into force of the Treaty, during which member states would be expected to abstain from imposing any new duties or raising existing ones but would not be required to reduce or eliminate any duties. Upon the expiration of this two-year period, member states would be expected progressively to reduce and ultimately to eliminate all intra-Community import duties within an eight-year period. Article 14 envisages the establishment of a common external tariff over a further period of five years, following the initial ten-year period, during which internal tariffs would be eliminated.

The program of trade liberalization set forth in Chapter III of the Treaty is rather ambitious, given the marked differences in the importance and structure of tariffs and quantitative restrictions among the member countries of the Community before the entry into force of the Treaty. Table 6 indicates the importance of customs duties in member countries as a share in their foreign trade and in gross domestic product (GDP), as well as in total government revenue. Average customs duties levied on trade are very low in Mauritania and Liberia, as shown by the shares of 3.9 per cent and 4.3 per cent of customs receipts in total trade. By contrast, the shares reach the highest levels of 21.7 per cent and 17.2 per cent in Upper Volta and Benin, respectively, while the average level for all other countries is 11.0 per cent.

There are large variations in the degree of dependence of the Community's member countries on customs duties as a source of government revenue. In The Gambia more than 50 per cent of total government revenue in 1973 originated from customs duties. While the total was somewhat less in Benin (49 per cent), Upper Volta (47 per cent), Sierra Leone (37 per cent), and Ivory Coast (35 per cent), customs duties nevertheless were a very important source of revenue for these countries. By contrast, the Governments of Cape Verde (8 per cent) and Niger (16 per cent) depended only to a limited extent on trade-related revenue. Obviously, the elimination of intra-Community tariffs and any leveling of external tariffs would have significantly different economic implications for these countries and would lead to different measures for implementing the trade liberalization envisaged in the Treaty. This is the case despite the provisions in the Treaty's Article 25 for compensation for loss of revenue because of tariff liberalization.

Further complications in the move toward a customs union arise from the adherence of the Community's member countries to other regional organizations or groupings which also aim at an elimination of tariffs on trade and sometimes even call for the granting of preferential terms of trade. Examples of such arrangements are (a) the Treaty of Abidjan (1973), establishing the West African Economic Community, with Ivory Coast, Mali, Mauritania, Niger, Senegal, and Upper Volta as signatories; (b) the Mano River Union (1973), signed by Liberia and Sierra Leone and since October 1980 including Guinea; and (c) the Cape Verde/Guinea-Bissau Free Trade Area

Table 6. ECOWAS: Reliance on Indirect Taxation [1]
(In per cent)

Country	Share of Customs Receipts						Share of Indirect Taxes in Total Government Receipts			
	In GDP			In foreign trade						
	Total customs receipts	Import duties	Export duties	Import duties: total imports	Export duties: total exports	Customs receipts: total trade	Indirect taxes [2]	Customs receipts	Import duties	Export duties
Benin	6.8	—	—	—	—	17.2	69.1	48.8	—	—
Cape Verde	2.1 [3]	2.1 [3]	—	—	—	—	13.3 [3]	7.5 [3]	7.4 [3]	0.1 [3]
Gambia, The	9.6	8.6	1.0	25.4	4.4	17.0	66.8	52.6	47.3	5.3
Ghana	4.7	1.9	2.8	11.5	12.7	12.2	64.8	26.6	10.5	16.1
Guinea	—	—	—	—	—	—	—	—	—	—
Guinea-Bissau	—	—	—	—	—	—	27.7	—	—	—
Ivory Coast [4]	7.5	4.1	3.4	14.8	10.0	12.2	78.1	35.3	19.4	15.9
Liberia	4.7	4.4	0.3	10.8	0.5	4.3	44.5	20.4	18.9	1.5
Mali [4]	3.3	—	—	—	—	7.5	65.7	25.4	—	—
Mauritania	3.6	3.4	0.2	8.7	0.3	3.9	62.2	28.1	26.8	1.3
Niger	2.2	1.4	0.8	7.5	5.7	6.7	57.4	16.3	10.5	5.8
Nigeria	3.1	3.1	—	22.3	—	7.9	32.9	19.7	19.5	0.2
Senegal	6.2 [4]	5.1 [4]	1.1 [4]	14.7	6.0	11.7	85.6	30.3 [4]	24.8 [4]	5.5 [4]
Sierra Leone [4]	5.5	4.6	0.9	17.2	4.1	11.2	58.8	37.0	30.9	6.1
Togo [4]	4.1	2.9	1.2	12.0	7.9	10.4	68.1	28.1	20.0	8.1
Upper Volta	5.2	5.0	0.2	24.1	4.5	21.7	67.9	47.2	45.0	2.2

Sources: United Nations, *Statistical and Economic Information Bulletin for Africa*, No. 9, Document No. E/CN.14/SEIB.9; IMF, *International Financial Statistics;* table adapted from Table 1 of *Preliminary Report on Trade Liberalization Options and Issues for the Economic Community of West African States* (United Nations Conference on Trade and Development and United Nations Technical Cooperation for Development, January 1979).

[1] Most of the data are for 1973.
[2] Excluding grants and loans.
[3] Data for 1972.
[4] Estimates.

(1976). In addition to these formal treaties, a number of bilateral arrangements on trade are still found within the Community.

In view of the important differences in the level and structure of customs duties within the Community and the complication of adherence by a number of countries to more than one regional organization, it is not surprising that the Community's member countries did not immediately start to implement the phased program envisaged in the Treaty. In fact, the two-year duty standstill period described in Article 13 did not become officially operative until May 1979. However, in May 1980, at a meeting in Lomé, Togo, the Conference of ECOWAS Heads of State decided to start the second phase of the program, aiming for an elimination of intra-Community customs duties and quantitative restrictions in May 1981 and aiming for completion of the program by 1989.

IV Trade Patterns in the Community

Direction of Intraregional Recorded Trade

Table 7 shows that the level of exports and imports and the relative importance of the member countries of the Community in regional trade vary widely. By far the largest importer and exporter in the region is Nigeria. The data available at the time the paper was prepared (1977 for most countries; 1976 and 1978 for a few countries) indicate that Nigeria accounted for about two thirds of both the total imports and exports of the region. By contrast, Cape Verde accounted for about 0.01 per cent of total exports and about 0.26 per cent of total imports. Between these two extremes, most member countries have exports and imports ranging between 1 and 3 per cent of total exports and imports, respectively. Ivory Coast was second only to Nigeria, accounting for over 15 and over 10 per cent of total exports and imports, respectively. Ghana's exports and imports accounted for about 6 per cent and 5 per cent of the respective totals. Senegal's exports and imports were slightly above 4 per cent.

Intraregional trade is relatively low, accounting for less than 3 per cent of total exports and imports. Data for intraregional trade include re-exports of imports from outside the region. With respect to exports, this low percentage conceals a wide variation among member countries of the Community. About 17 per cent of Senegal's exports are directed to other member countries. Cape Verde and Mali each direct about 10 per cent of their exports to other member countries. The member countries' exports to the region range between 1 and 4 per cent, with Guinea having the lowest percentage (about 0.2 per cent). Because of the heavy weight of Nigeria in the total and because its exports to the region are relatively low (about 2 per cent), intraregional exports would rise to about 4.5 per cent on average if Nigeria's exports to the region are excluded while the exports of other countries to Nigeria are retained.

Some interesting patterns emerge from the data on export flows within the region, as seen in Table 8. First, the percentage of exports from the member countries of the West African Monetary Union within the Community is above the average, except for Niger and Upper Volta. Among the Union countries, Senegal's 17 per cent is considerably above the percentage share of any other country in the region. Second, the main regional export markets of the member countries of the Union are principally the non-Union countries of the Community. The exception is Ivory Coast, which directs over half of its exports in the region to other member countries of the Union. Third, the traditional ties with former metropolitan countries, re-

Table 7. ECOWAS: Trade Patterns [1]
(In per cent)

	Share of Exports to Other ECOWAS Countries in Total Exports	Share of Exports in Regional Total	Share of Imports from Other ECOWAS Countries in Total Imports	Share of Imports in Regional Total
Benin	3.88	0.69	3.88	1.48
Cape Verde	10.91	0.01	0.90	0.26
Gambia, The	2.41	0.25	9.10	0.45
Ghana	1.65	6.03	11.71	4.65
Guinea	0.20	2.00	0.70	1.45
Guinea-Bissau	1.00	0.08	1.42	0.21
Ivory Coast	4.36	15.39	1.87	10.70
Liberia	1.78	2.78	2.58	2.57
Mali	9.65	0.61	27.39	0.65
Mauritania	—	1.01	4.90	1.73
Niger	0.95	1.00	14.39	0.93
Nigeria	1.81	62.06 [2]	0.43	66.73
Senegal	16.83	4.26	7.23	4.40
Sierra Leone	3.10	0.91	31.74	0.92
Togo	3.41	1.54	3.34	2.32
Upper Volta	1.59	1.39	16.39	0.55
ECOWAS average	2.87	100.0	2.58	100.0
ECOWAS average, excluding Nigeria [3]	4.62		7.54	

Sources: Data provided by the national authorities; IMF, *Direction of Trade;* and Fund staff estimates. Export data were extrapolated from estimates of partners' import data. As data from differing sources do not always coincide, they should be regarded as illustrative.

[1] Data for Benin, Ivory Coast, Nigeria, and Togo refer to 1978; for Niger, 1976 data were used; for other countries, 1977 data were used.

[2] Petroleum exports account for nearly 91 per cent of the total.

[3] Excludes Nigeria's exports to the region and its imports from the region.

Table 8. ECOWAS: Direction of Regional Exports [1]

(In percentage of total exports)

	Exporting Country															
Importing Country	Benin	Cape Verde	The Gambia	Ghana	Guinea	Guinea-Bissau	Ivory Coast	Liberia	Mali	Mauritania	Niger	Nigeria	Senegal	Sierra Leone	Togo	Upper Volta
Benin [2]	—	—	—	0.23	—	—	0.09	—	—	—	—	0.02	0.36	—	0.33	—
Cape Verde	—	—	—	—	—	0.73	—	—	—	—	—	—	4.78	—	—	—
Gambia, The [2]	—	—	—	0.18	—	0.27	—	0.11	—	—	—	—	0.40	1.49	—	—
Ghana	0.08	—	2.26	—	—	—	0.13	0.09	0.26	—	0.07	0.86	0.11	0.17	1.33	1.09
Guinea	—	—	—	—	—	—	—	—	1.33	—	—	—	—	0.36	—	—
Guinea-Bissau	—	10.91	—	—	—	—	—	—	—	—	—	—	0.06	—	—	—
Ivory Coast [2]	—	—	—	0.04	—	—	—	—	6.88	—	—	—	3.92	—	0.47	0.43
Liberia	—	—	—	0.27	0.15	—	0.13	—	—	—	—	—	0.56	—	0.06	—
Mali	—	—	—	—	—	—	0.88	—	—	—	0.13	—	1.44	1.07	0.02	—
Mauritania	—	—	—	—	—	—	0.03	0.91	—	—	—	—	1.55	—	—	—
Niger [3]	0.50	—	—	—	—	—	0.53	—	0.12	—	—	0.07	0.40	—	—	0.09
Nigeria	3.30	—	—	0.62	—	—	0.68	0.54	—	—	0.75	—	2.81	—	0.98	—
Senegal	—	—	—	—	—	—	1.11	—	—	—	—	0.29	—	—	—	—
Sierra Leone	—	—	0.15	0.02	0.05	—	0.01	0.13	—	—	—	0.51	0.06	—	—	—
Togo [2]	—	—	—	0.22	—	—	0.22	—	1.06	—	—	0.04	0.28	—	—	—
Upper Volta	—	—	—	0.06	—	—	0.53	—	—	—	—	—	0.10	—	0.23	—
Total to ECOWAS	3.88	10.91	2.41	1.65	0.20	1.00	4.36	1.78	9.65	—	0.95	1.81	16.83	3.10	3.41	1.61

Sources: Figures are extrapolated from Table 3, using data provided by the national authorities; IMF, *Direction of Trade;* and Fund staff estimates. Because of the wide discrepancies in data from various sources, the above percentages should be regarded as illustrative.

[1] Unless otherwise indicated, data refer to 1977.
[2] Data are for 1978.
[3] Data are for 1976.

flected in the common language for a number of member countries of the Community, affect the pattern of exports within the region. For instance, Portuguese-speaking Cape Verde exports almost exclusively to Guinea-Bissau, where Portuguese is also the official language, and vice versa. Among the French-speaking countries, Ivory Coast, Mali, Senegal, and Togo direct their exports largely to other French-speaking countries in the region. Benin, Guinea, Niger, and Upper Volta do not conform to this pattern. The English-speaking countries—The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone—concentrate their regional exports among themselves. Fourth, only Ivory Coast and Senegal have fairly diversified regional exports. Finally, Mauritania is the only country without any significant recorded exports to other member countries of the Community.

The import profiles of Community members are essentially a mirror image of their export profiles. Intra-Community imports are about 2.6 per cent of total Community imports, but this average, as in the case of exports, conceals wide variations. Because of its importance in overall trade and because of the low level of its imports from the region relative to its total imports, Nigeria affects this percentage disproportionately. Excluding Nigeria's imports from the region (but not the other countries' imports from Nigeria), the average percentage of intra-Community imports would rise to about 7 per cent—still a relatively modest figure.

In terms of each member country's total imports, regional imports account for over 30 per cent in Sierra Leone, about 27 per cent in Mali, 16 per cent in Upper Volta, 14 per cent in Niger, 12 per cent in Ghana, 9 per cent in The Gambia, and 7 per cent in Senegal. Regional imports of Benin, Liberia, Mauritania, and Togo range from nearly 3 per cent to 5 per cent. At the lower end of the scale, regional imports are below 2 per cent for Ivory Coast, Benin, Guinea, The Gambia, Guinea-Bissau, and Nigeria.

A few generalizations are appropriate in regard to the regional import profiles shown in Table 9. First, for all member countries of the West African Monetary Union except Ivory Coast, the percentage of imports from Community member countries is above the average for the region. Upper Volta and Senegal stand out from the group, with about 16 per cent and 7 per cent, respectively, but these percentages are lower than those for Sierra Leone and Mali. Second, most of the regional imports of the member countries of the Union come from other members of the Union. Third, the pattern of regional imports tends to be affected by the language used in the countries in the region, but this factor is less important than it is on the export side. Fourth, Community imports from within the region are primarily from only a few selected member countries; thus, the regional import profiles are generally not diversified. Finally, Mauritania, while not a significant exporter to any country in the region, reports sizable imports from Senegal, Liberia, and Ivory Coast.

The import profile shows the heavy dependence of the Community member countries on trade with Europe. Almost two thirds of their imports are from Europe. For most of the French-speaking countries, about one third of their imports originate in France. For the two Portuguese-speaking countries, over 40 per cent of their imports originate in Portugal. Three English-speaking countries—The Gambia, Nigeria, and Sierra Leone—receive about a quarter of their imports from the United Kingdom, while Liberia receives about the same proportion from the United States.

Composition of Recorded Trade

For most countries in the region, exports are concentrated on agricultural commodities and minerals. Although some important agricultural products are common to many countries in the region, a brief overview for each country will serve to show the variety of the region's exports. Benin's export proceeds are derived primarily from palm products, cotton fiber and seeds, and cocoa beans. Cape Verde's primary exports are salt, fish and shrimp, canned fish, and bananas, while The Gambia has a heavy dependence on exports of groundnut products. Ghana's major export commodity is cocoa, with timber, aluminum, and gold of less importance. Guinea's export receipts are almost exclusively from bauxite and alumina. Guinea-Bissau depends for most of its export proceeds on groundnuts and palm products. Most of the export proceeds of Ivory Coast come from coffee, cocoa, and timber. Over half of Liberia's export proceeds are derived from iron ore, while rubber, diamonds, and logs and timber, together with such agricultural products as coffee, cocoa, and palm products, account for the rest. Mali derives about half of its export proceeds from cotton and the rest mainly from groundnuts, cereals, and livestock. Iron ore and fish account almost exclusively for Mauritania's export receipts. Uranium concentrate provides most of Niger's export proceeds; other major exports include livestock, groundnuts, cotton lint and seed, and vegetables. Nigeria depends on petroleum exports almost exclusively to the extent of over 90 per cent. Senegal exports mainly groundnuts and related products, phosphates, and fertilizers, as well as fish, shellfish, and related products; it is one

Table 9. ECOWAS: Direction of Imports [1]

(In per cent)

Exporting Country	Importing Country: Benin	Cape Verde	The Gambia	Ghana	Guinea	Guinea-Bissau	Ivory Coast	Liberia	Mali	Mauritania	Niger	Nigeria	Senegal	Sierra Leone	Togo	Upper Volta
Benin [2]	—	—	—	0.01	—	—	—	—	—	—	0.35	0.03	—	—	—	—
Cape Verde	—	—	—	—	—	0.38	—	—	—	—	—	—	—	—	—	—
Gambia, The [2]	—	—	—	0.11	—	—	—	—	—	—	—	—	—	0.04	—	—
Ghana	0.84	—	2.10	—	—	—	0.02	0.57	—	—	—	0.05	—	0.12	0.51	0.63
Guinea	—	—	—	—	—	—	—	0.10	—	—	—	—	—	0.10	—	—
Guinea-Bissau	—	0.20	0.04	—	—	—	—	—	—	—	—	—	—	—	—	—
Ivory Coast [2]	0.87	—	—	0.38	—	—	—	0.68	18.58	0.20	7.91	0.14	3.48	0.18	1.32	13.28
Liberia	—	—	0.61	0.05	—	—	—	—	—	1.30	—	0.02	—	0.35	—	—
Mali	—	—	—	0.03	0.50	—	0.35	—	—	—	0.07	—	—	—	—	1.05
Mauritania	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Niger [3]	—	—	—	0.10	—	—	—	—	0.17	—	—	0.01	—	—	—	—
Nigeria	0.93	—	0.31	10.24	—	—	—	0.03	0.03	—	4.29	—	3.70	30.72	0.97	0.10
Senegal	0.91	0.70	3.37	0.09	—	1.04	1.39	0.83	8.37	3.40	1.65	0.16	—	0.24	0.46	0.69
Sierra Leone	—	—	2.67	0.03	0.20	—	—	0.34	—	—	—	—	—	—	—	—
Togo [2]	0.30	—	—	0.39	—	—	0.06	0.03	0.05	—	—	0.02	—	—	—	0.57
Upper Volta	—	—	—	0.29	—	—	0.05	—	—	—	0.12	—	—	—	—	—
Other Africa	1.48	—	6.00	0.94	0.50	0.20	4.66	0.44	0.42	1.90	6.47	0.40	5.36	2.18	0.41	0.77
Total	5.36	0.90	15.10	12.65	1.20	1.62	6.53	3.02	27.81	6.80	20.86	0.83	12.59	33.92	3.75	17.16
Europe	65.33	—	65.70	35.43	75.80	65.34[4]	69.23	—	61.76	72.90	58.87	65.74	62.44	45.32	82.30	63.65
Of which:																
France	28.55	1.10	6.50	2.36	31.00	6.69	39.27	3.60	37.52	43.10	43.44	7.37	40.03	6.04	34.20	44.64
Germany, Fed. Rep. of	6.17	1.80	7.70	12.60	3.40	3.58	7.22	9.19	6.59	8.70	6.79	15.26	5.57	7.48	9.14	5.54
United Kingdom	13.18	2.40	28.30	13.74	5.30	2.89	2.38	7.18	2.10	3.20	—	21.74	2.33	22.67	9.86	1.63
Other	29.30	—	19.20	51.92	23.00[5]	33.04	24.24	—	10.43	20.40	20.25	33.42	24.97	20.76	13.95	19.20
Of which:																
United States	4.67	1.90	5.00	13.41	8.80	3.32	5.24	26.30	1.69	7.50	6.41	10.53	8.37	11.26	4.85	9.39
Japan	4.75	1.10	2.70	4.40	5.20	1.17	7.28	8.78	2.39	3.30	2.99	10.62	0.65	8.86	2.98	2.72
Total	100.00	100.00[6]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Sources: Data provided by the national authorities; IMF, *Direction of Trade;* and Fund staff estimates.

[1] Unless otherwise indicated, data refer to 1977.
[2] Data are for 1978.
[3] Data are for 1976.
[4] Imports from Portugal amounted to about 40.0 per cent of total imports in 1977.
[5] Imports from the U.S.S.R. amounted to about 11.2 per cent and from the People's Republic of China to about 8.7 per cent in 1977.
[6] Imports from Portugal amounted to 45.2 per cent in 1977.

of the few countries of the region for which industrial products are a significant proportion of total exports (about 19 per cent). Almost two thirds of Sierra Leone's exports are minerals (mainly diamonds), but agricultural commodities, such as coffee, cocoa, and processed palm kernels, are also important. The three commodities accounting for most of Togo's export proceeds are phosphates, cocoa, and coffee. Upper Volta earns about a third of its export proceeds from livestock products, another third from cotton lint, and smaller proportions from sheanut products, other oil seeds, vegetables, and fruits.

Import commodities are not specifically identified here because of their variety. However, the region's imports, as seen in Table 9, originate primarily in the industrial countries and are concentrated on foodstuffs, beverages and tobacco, durable consumer goods, intermediate and capital goods, and, with few exceptions, petroleum products.

Factors Affecting Intraregional Trade

Given the geographical proximity of the member countries of the Community, intraregional trade is extremely small. Significant factors impeding intraregional trade include (1) the noncomplementary production structures of the member countries of the Community, transportation problems within the region, and lack of adequate communication facilities; and (2) impediments that would become increasingly important once the first group is alleviated, including trade barriers (such as tariffs and quantitative restrictions), problems of currency convertibility, and the dearth of organized centers of information on the availability of products in other countries in the region.

Perhaps the most important determinant of the low level of intraregional trade is the production profile of the economies of the Community members. As noted in the preceding section, most of these countries concentrate heavily on the production of primary agricultural and mineral products. Although most of them have small-scale industries, the production of such industries is aimed primarily at satisfying local consumption needs. Import demand in the region is concentrated on processed foodstuffs, durable consumer goods, intermediate goods, and capital goods—most of which can be supplied at present only by the industrial countries.

The lack of adequate intraregional road, railway, and air transport networks results in prohibitively high transportation costs and acts as a major impediment to intraregional trade. The shortage of modern storage facilities also aggravates the situation since perishables often cannot be stored to await transportation. As a result, commodities at times can be imported more rapidly and less expensively (in terms of transportation costs) from the industrial countries than can similar goods from neighboring countries.

Inadequate communications facilities are also a significant obstacle to intraregional trade. Telephone communications often have to be channeled through third countries. Besides being difficult, intraregional communications are extremely expensive. The telegraph and telex network within the region is sometimes unreliable and costly, while mail is subject to lengthy delays. Accordingly, placement of orders within the region and follow-up on such orders can be both costly and time-consuming.

As these basic obstacles to intraregional trade are alleviated, the second group will become more important. Trade barriers to intraregional transactions, such as tariffs, export taxes, and quantitative restrictions, need to be eliminated. At present, however, the heavy dependence of most member countries of the Community on customs receipts for government revenue, together with a desire to protect domestic industries, results in inordinately high tariffs. In most member countries, tariffs are applied without any preferential treatment for other member countries. The current tariff structure, therefore, does not provide any special incentive to import from other countries in the region. However, the Community plans to eliminate all intraregional tariffs by 1989.

The inconvertibility of a number of the currencies in the region also acts as a deterrent to trade. To some extent, the West African Clearing House has provided an avenue for the use of local currencies in intraregional trade, but it has faced a number of problems (discussed in Chapter V). When the obstacles to intraregional trade (identified above) are removed, the full convertibility of the regional currencies accompanied by the expansion and improvement of the Clearing House facilities would become more important factors in encouraging intraregional trade.

Few countries in the Community have access to adequate information on the availability of products originating in the region. As bottlenecks are removed and as goods commence to flow to other countries in the region, the dissemination of information regarding the availability of locally produced goods will become increasingly important.

Unrecorded Trade

No reliable information is available on the pattern of unrecorded trade within the Community, although

it is generally acknowledged that unrecorded border trade is of considerable importance. There are a number of reasons for such trade. First, national boundaries have sometimes been drawn across traditional boundaries, and residents in such areas have continued their traditional trading patterns. Second, variations in the availability of goods result from differences in the restrictiveness of the exchange and trade systems. Consequently, primary goods from countries with highly restrictive systems are often traded for goods that originate in industrial countries and are available in countries in the Community with more liberal trade systems. Third, considerable differentials in prices of certain goods, resulting from differing inflation rates, disequilibrium exchange rates, different tariff levels, or varying degrees of subsidies, have been continuing incentives for border trade.

The main items in border trade appear to be agricultural products, some mining products (such as diamonds), artisanal handicrafts, textiles, and light consumer durable goods. Such trade generally is not of a barter nature, but is transacted in regional currencies that are relatively convertible.

Potential for Trade

The extent to which intraregional trade will develop depends in large measure on the alleviation of the current limits on such trade. The major deterrent to trade—the noncomplementary production profiles—can be overcome only by a carefully designed and coordinated regional investment strategy aimed at developing complementary industries.

There is, however, some scope for increasing intraregional trade over the short term or medium term in goods produced by existing industries. A recent study has identified such goods as being largely composed of semiprocessed and light industrial products.[14] These include beverages, confectionery, chalks, salt, cosmetics, pharmaceuticals, chicken feed, dried fish, pepper, ginger, nails, kola nuts, manufactured tobacco, meat, ceramics, footwear, timber, wood products, textiles, cement, crude oil, refined oil, sheet aluminum, electrical appliances, razor blades, matches, candles, bicycles, fruits and vegetables, and assorted chemical products.

Another study [15] examined the regional production of a selected group of light industrial products and the demand for such products with a view to determining how much the production of such goods could be accelerated to satisfy regional demand. The study covered 13 products: automobile batteries, dry batteries, bicycles, ceramic tiles, sanitary ware, electric light bulbs, electric plugs and sockets, glass containers, flat glass, disposable hypodermic syringes, ceramic tableware, plastic tableware, and telephone handsets. These products were identified as those in which production for intraregional trade could be easily expanded.

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[14] United Nations Conference on Trade and Development (UNCTAD) and Economic Commission for Africa, *A Study of Recorded Trade Flows* (1978).

[15] International Trade Center, UNCTAD and the General Agreement on Tariffs and Trade (GATT), *The Profiles and Potential of External Trade of Members of the Economic Community of West African States* (1978).

V Payments Arrangements for Intraregional Trade

There are three principal modes of settlement of intraregional trade in the Community. The first involves essentially a clearing at the commercial banking level only, though foreign exchange must usually be obtained from the central bank. The second involves a bilateral clearing mechanism at the level of the central bank, while the financial transaction proper is carried out at the commercial banking level. The third mechanism involves a clearing of intraregional payments on a multilateral basis by the West African Clearing House, in which the central banks of all member countries of the Community, except Cape Verde, are participants. The characteristics and importance of these three modes of settlements are discussed below in more detail.

Apart from settlements made through official financial institutions, a significant number of settlements for trade transactions take place outside the official financial sector—in particular, unofficial and unrecorded border trade transactions, where settlement is made directly in cash. In some cases, however, border trade is of a barter nature and does not involve a financial transaction. Where payments and exchange transactions are necessary, they are frequently made in parallel markets either in a convertible currency or in the domestic currency that is the more convertible of the currencies of the two trading partners. The less convertible currency is also occasionally accepted, but at a substantial discount. Both illegal and legal border trade generally avoid clearing through official financial institutions, usually because of the unfamiliarity of small traders with the methods and requirements of the official financial system.

Clearing at the Level of Banks

Arrangements Among Central Banks

Within the Community two types of payments arrangements take place between central banks. The first involves bilateral payments agreements, such as the one between Cape Verde and Guinea-Bissau, under which all payments between the two countries are settled through clearing accounts maintained in the respective central banks. It should be noted, however, that in these two countries the central banks are also the only commercial banks. Special arrangements apply to oil imports from Nigeria by member countries. Most of these arrangements amount to an outright credit granted by the Central Bank of Nigeria to central banks of other member countries, usually on commercial terms. Only in a few cases does a direct clearing of oil payments against payments for other transactions take place. Settlement of net debits is usually made in convertible currencies.

Arrangements Among Commercial Banks

The most important mode of settlement of intraregional transactions is direct settlement at the commercial banking level. Two main types of arrangements can be distinguished. The first involves direct settlements between regional banks, for which banks in the region have established correspondent banking relationships with each other. When the volume of transactions is significant, banks may open for each other either clearing accounts or open accounts denominated in local currencies. In the former case, clearing takes place at regular intervals and balances are settled in convertible currencies; in the latter case, accounts are replenished as they reach a level considered too low for future payments. Replenishment of accounts involves the purchase of local currencies with convertible currencies.

The second type of arrangement for settlements of regional payments by commercial banks takes place through banks in major financial centers in Europe, notably London and Paris, and in the United States. Such settlements may involve up to four banks, two in the member countries of the Community and two in financial centers. In a sample transaction, the paying bank in a member country in the Community makes payment to a correspondent bank in Europe or the

United States in foreign exchange acquired from the central bank or held in its account in the respective foreign correspondent bank. The second step involves the transfer in Europe or the United States of the payment by the foreign correspondent bank of the paying bank to a foreign correspondent bank of the receiving bank in a member country. On occasion, the correspondent banks are the same for the paying and the receiving bank in the two member countries involved in the transaction, in which case the transfer is effected within the first foreign correspondent bank by a simple debiting and crediting of accounts held within the bank. The final step is the transfer by the foreign correspondent bank of the payment to the receiving bank in a member country, its conversion into local currency, and the payment to the ultimate beneficiary.

Settlement through banks in Europe or the United States is still by far the most important mode of settlement for intraregional trade. This is particularly true for banks in the French-speaking member countries of the Community, which often use this mode even for payments occurring within the West African Monetary Union and denominated in CFA francs. There are a number of reasons for the preference of settlements through banks in Europe or the United States. It is generally claimed that this type of arrangement is the most efficient, both in terms of time elapsed before settlement and in terms of costs. Communications are said to be faster and more reliable between any member country of the Community and Europe or the United States than between regional countries. Waiting costs and possible exchange risks arising from delays in payments are thus reduced. Furthermore, costs arising from additional calls and cables in the case of poor or slow communications between member countries can be avoided.

More important cost differences between direct regional settlements and indirect international settlements arise in the context of a necessary accumulation of information about the partner bank and in connection with the execution of transactions. Before a correspondent banking relationship can be established between banks in member countries of the Community, a thorough examination of the financial position, reliability, and trustworthiness of the partner bank is necessary in order to establish the basis for such a relationship. This investigation involves relatively high information costs that banks are reluctant to incur, especially if the volume of transactions to be expected is low. In this case, it is more cost efficient for the banks to include the settlement of regional trade and payments in their general payments arrangements with correspondent banks in Europe and the United States, thereby benefiting from economies of scale in financial activities that reduce both information costs and transactions costs. Given the presently low level of regional trade, direct correspondent relationships between regional banks are, indeed, more often than not less cost efficient than indirect relationships with foreign banks. Only in a limited number of cases, where the level of trade between countries is important, or in cases where banks expect a reasonable level of payments to emerge in the near future, have correspondent banking relationships been established in the region.

Another factor that may impede the establishment of a direct clearing mechanism between regional commercial banks, especially if it involves the setting up of clearing accounts with each other, is that no forward cover is available for regional currencies while forward cover is common for all convertible currencies used in indirect clearing through correspondent banks in Europe and the United States.

A final aspect in favor of indirect settlements through foreign banks is the convenience of well-known procedures of payments mechanisms and the often personal knowledge of bankers "at the other end." The language used also plays a role in transactions between countries with two different languages.

On balance then, most banks seem to prefer the indirect clearing of regional payments through correspondent banks in Europe and the United States, primarily because of its greater efficiency in cost and time and because of its greater convenience.

The West African Clearing House

General Features of the System

On March 14, 1975, the central banks of 12 West African countries [16] signed in Lagos, Nigeria, the Articles of Agreement for the establishment of the West African Clearing House. The Clearing House was established on July 25, 1975 in Freetown, Sierra Leone, and its operations commenced on July 1, 1976. According to Article II, Section 2, of its Articles of Agreement, the objectives of the Clearing House are:

(a) To promote the use of the currencies of the members of the Clearing House for Sub-Regional trade and other transactions.

(b) To bring about economies in the use of foreign reserves of the members of the Clearing House.

(c) To encourage the members of the Clearing House to liberalize trade among their respective countries.

(d) To promote monetary co-operation and consultation among members of the Clearing House.

[16] Benin, The Gambia, Ghana, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta.

Article III states that all central banks and monetary authorities in the region can become members. In fact, since the inception of the Clearing House, three more countries—Guinea, Guinea-Bissau, and Mauritania—have joined the clearing agreement. This leaves Cape Verde as the only member country of the Community that is not also a participant in the Clearing House.

Articles VII and VIII of the Articles of Agreement of the Clearing House outline in more detail the method for achieving the general objectives of the clearing mechanism, especially those stated in subsections (a) and (b) of Article II, Section 2. Article VII makes reference to a common unit of account, parities, and exchange guarantees, and Article VIII addresses itself to credits, transactions, and exceptions in the clearing mechanism.

Given the large number of currencies of the membership of the Clearing House and the diversity of the exchange arrangements involved, a stable unit of account had to be introduced if the clearing system was to succeed in increasing the use of regional currencies in the settlement of intra-Community trade. The unit chosen for this purpose was the West African Unit of Account (WAUA), which is equivalent in value to one special drawing right (SDR) of the International Monetary Fund. Because of its composition, the WAUA has maintained relative stability since the inception of the Clearing House.

The choice of the WAUA as the unit of account necessitated the establishment on a daily basis of the rate of exchange for the currency of each member bank of the Clearing House in terms of the WAUA. This required, first, the determination of the central rate of each currency in terms of its intervention currency, and, second, a conversion rate for the currency in terms of the SDR by means of the intervention currency's rate in terms of the SDR. In order to minimize fluctuations in rates used for clearing operations and in order to reduce the administrative burden and the costs of operations, two rate determination periods are distinguished in each month and only two official exchange rates are established for each currency. The first determination period covers the first to the fifteenth day of the month, and the second covers the sixteenth day to the end of the month. Within each determination period the average of the daily rates is calculated and is applied as the official rate to all settlements in the following determination period.

When exchange rates are fixed as average values over a past period and are applied to settlements in a future period, there is a possible exchange risk. This tends to favor countries in a net debtor position with other member countries of the Clearing House whenever the currencies of these debtor countries are devalued with respect to the WAUA. This problem was not addressed in either the Articles of Agreement or in the Rules and Regulations of the Clearing House. However, at a meeting of central bank governors in Banjul, The Gambia, early in 1980 an agreement was reached whereby at the time of a change in the official exchange rate of a country's currency with respect to the country's intervention currency by more than 2.5 per cent, the new rate of that currency in terms of the WAUA would apply immediately for transactions channeled through the Clearing House. The agreement became effective on May 1, 1980. Since it applies only to discrete changes in official exchange rates in terms of the intervention currency, the agreement does not cover possible important changes in the WAUA rate of currencies that may occur as a result of the floating of intervention currencies vis-à-vis the SDR or the WAUA. Thus, an exchange risk still remains, even if it is a small one.

In view of the establishment of an artificial unit of account, the smooth operation of the system depends on the guarantee by central banks of member countries of the Clearing House to convert their own currencies freely into the WAUA for all eligible transactions. Under the Clearing House agreement, all central banks of member countries of the Clearing House have accepted this obligation and have thereby largely eliminated the inconvertibility of regional currencies, at least for eligible transactions.

According to Article VIII, Section 3, of the Clearing House agreement, all current account transactions—that is, goods, services, income, and unrequited transfers—are eligible for clearing through the Clearing House, with the exception of (a) those specified by the Exchange and Clearing Committee,[17] and (b) payments relating to trade in goods not originating in the territory of a member country—that is, goods from third countries.[18] Furthermore, trade transactions between member countries of the West African Monetary Union and between Mali and the Union are exempted from the need to settle through the Clearing House. So far, payments for petroleum imports from Nigeria have also been settled outside the arrangements of the Clearing House.

Article VIII, Section 9, of the Clearing House agreement provides for a settlement of net credit and debit positions at the end of each month. The central banks of member countries are notified on a weekly basis of their current net position. A settlement before the nor-

[17] The Exchange and Clearing Committee of the Clearing House comprises at least two representatives of each member central bank and meets at least twice every year.

[18] The Clearing House has no means of verifying the origin of goods for which payments are channeled through its clearing mechanism. It is reported that in trade between certain countries of the region most of the goods originate in third countries.

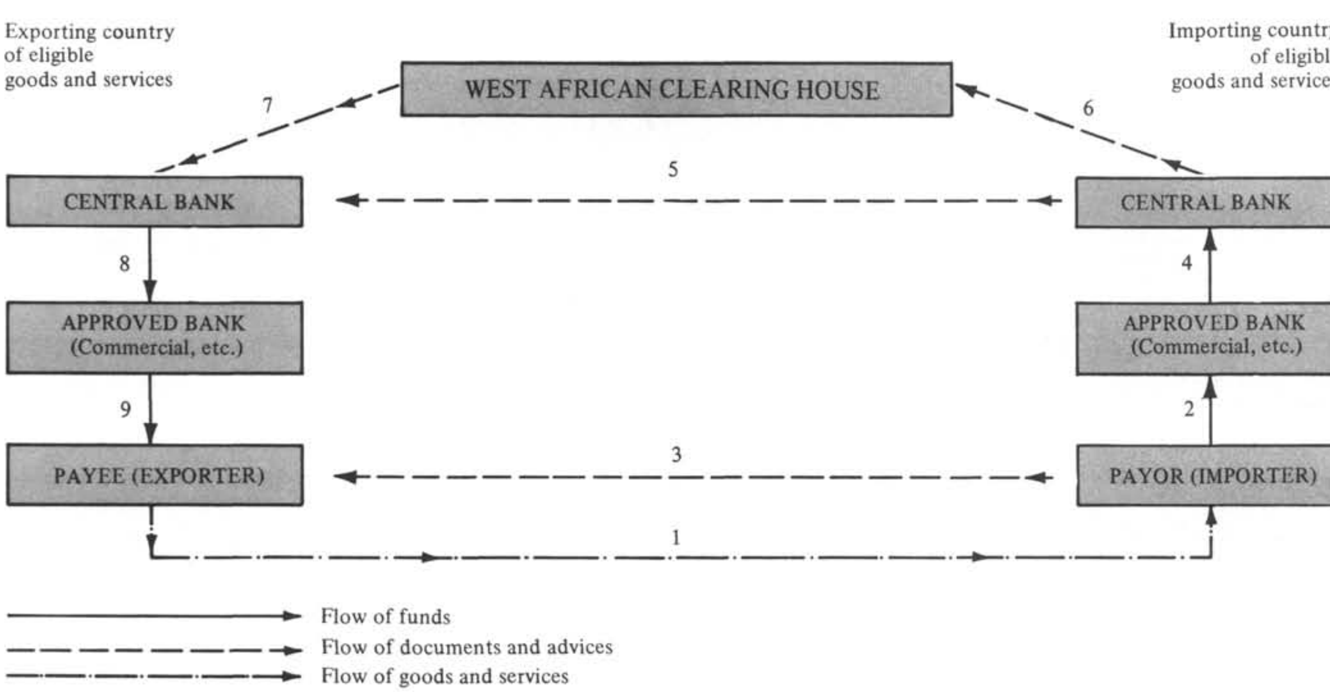
mal settlement date at the end of each month takes place if the debtor position of any central bank exceeds the maximum credit level of 10 per cent of the average total value of trade (imports plus exports) with other member countries of the Clearing House over the three years preceding the year of the calculation. The net extension of credit by a creditor country is limited to 20 per cent of its total trade, as defined above. The limits can be exceeded if agreement is reached between the central banks involved in the net creditor/debtor relationship. Settlement of net balances takes place in convertible currencies agreed between the central banks concerned, mainly in U.S. dollars, pounds sterling, French francs, Swiss francs, and deutsche mark. Settlement of debts is to be effected within five working days after the receipt by the debtor bank of the notification of its position vis-à-vis creditor banks. However, with the agreement of the creditor bank, a debtor bank can delay the settlement of its debt, in which case it will have to pay interest at a rate determined by the Exchange and Clearing Committee.

The clearing of transactions channeled through the Clearing House takes place at three levels: the first is through the commercial banks, which deal with the original payor and the ultimate payee; the second is at the level of the central banks, which receive from and make payments to the commercial banks; and the third level is that of the Clearing House, which credits and debits the participating central banks in accordance with notifications from the central banks. The official clearing procedure distinguishes between settlements involving a payment order and those involving a letter of credit.

In the case of a payment order, the clearing procedure follows the steps below and the related Flow Chart 1:

1. A resident in an exporting country (called country A) sends goods or renders services to an importer in country B.
2. The importer in country B makes payment for the goods or services to his commercial bank in country B for transmission to the exporter.
3. The same importer in country B advises the exporter in country A that he has made payments to his commercial bank in country B for remittance to the exporter in country A. For other remittances that do not involve goods and services (for example, remittances for educational purposes), the payor also advises the beneficiary (payee).
4. The commercial bank in country B sends a transfer or payment order to the central bank in country B where the funds collected are deposited.

Flow Chart 1. West African Clearing House: Clearing Procedure for All Payments Except Those Under Letters of Credit

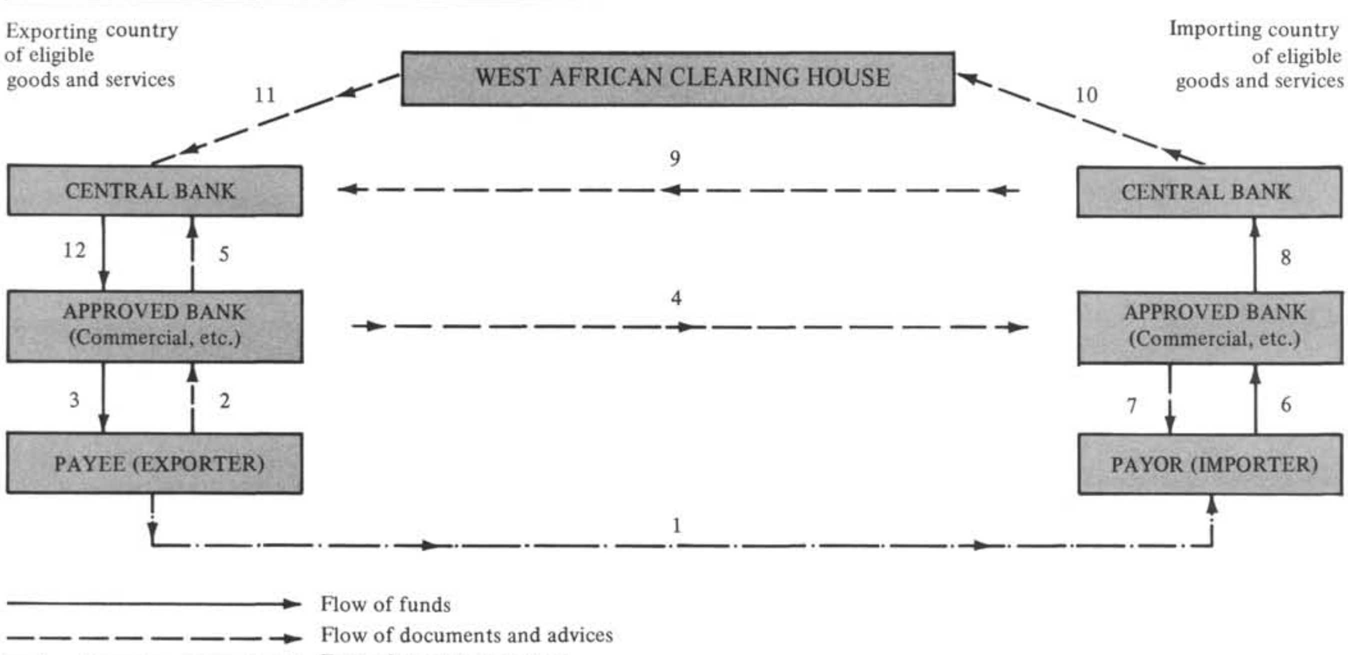


5. The central bank in country B advises the central bank in country A of the amount in WAUA to be paid through a designated commercial bank to the named beneficiary in country A.
6. The central bank in country B at the same time informs the West African Clearing House of the amount to be paid in WAUA to the central bank in country A.
7. The West African Clearing House debits the account of the central bank in country B and credits the account of the central bank in country A, advising accordingly.
8. The central bank in country A, on the advice of the central bank in country B, pays the commercial bank of the beneficiary in country A the amount that was received for the beneficiary in country A.
9. The commercial bank in country A pays the amount received to the beneficiary in country A.

In the case of a letter of credit, the clearing procedure follows the steps below and the related Flow Chart 2:

1. An exporter in country A (the exporting country) sends goods or renders services to an importer in country B (the importing country).
2. The exporter presents his documents to his commercial bank in country A.
3. If the documents are in order, the commercial bank in country A pays the exporter immediately.
4. The commercial bank in country A then forwards the documents to the commercial bank in country B that opened the credit, asking for a refund.
5. The commercial bank in country A at the same time advises the central bank in country A of the claim it is making on the commercial bank in country B in respect of payments made under the letter of credit.
6. At the request of the commercial bank in country B, the importer in country B pays the amount due for the goods or services received.
7. The commercial bank in country B, on receipt of payment from the importer, releases the documents in respect of the goods or services to the importer.
8. The commercial bank in country B pays to the central bank in country B the amount it has collected from the importer.
9. The central bank in country B advises the central bank in country A of the amount in WAUA it has received for the exporter in country A.
10. The central bank in country B at the same time advises the West African Clearing House of the amount it has received, requesting that its account be debited and the account of the central bank in country A be credited.
11. The West African Clearing House debits the account of the central bank of country B (the

Flow Chart 2. West African Clearing House: Clearing Procedure for Payments Under Letters of Credit



importing country) and credits the account of the central bank of country A (the exporting country), advising the central bank in country A of the amount credited.

12. The central bank in country A then pays to the commercial bank of the exporter the amount due for the goods or services exported to country B.

Data on transactions through the Clearing House from the beginning of its operations in 1976 to the second half of 1978 show an upward but uneven trend (see Table 10). Since no reliable data on intra-Community trade during the periods covered by Table 10 were available, it was not possible to calculate the percentage of that trade channeled through the Clearing House. Indications are, however, that some countries, such as Ghana and Guinea, have channeled an increasing proportion of their payments for regional trade and transfers through the Clearing House, while others, notably the member countries of the West African Monetary Union, have shown a reluctance to do so. On balance, there has probably been a slight increase in the percentage of regional payments channeled through the Clearing House.

Table 10. Operations of the West African Clearing House
(In millions of WAUA)

	1976	1977		1978	
	Second half	First half	Second half	First half	Second half
Transactions channeled through the Clearing House	18.4	27.8	17.4	22.4	29.6
Line 1 adjusted for financial transfers	10.9	19.0	16.0	19.0	16.7
Amounts cleared	4.3	6.8	6.2	7.9	6.3
Line 3 as percentage of line 1	23	25	36	35	21
Line 3 as percentage of line 2	29	36	39	41	37

Source: United Nations Conference on Trade and Development and Economic Commission for Africa, *Monetary and Financial Obstacles to Trade Expansion and Possible Improvements in Payment Relations,* ECOWAS Trade, Customs, and Monetary Study Project: Study No. 4 (Lagos, March 1979).

Line 3 of Table 10 gives the amounts cleared—i.e., settlements of regional transactions that do not necessitate a transfer of foreign exchange (convertible currencies) from one central bank to another. These figures can be viewed as an indication of a reduced requirement for foreign exchange on the part of the participating central banks. Lines 4 and 5 show that, as a percentage of transactions, this reduction in foreign exchange needs varied substantially during 1976–78. Until mid-1978, there appears to have been no noticeable upward trend in the savings of foreign exchange reserves.

Problems of the Clearing System

Delays in payments have been the most frequently cited problem of the clearing mechanism of the West African Clearing House. Final settlements of payments may take as long as 4–6 months and, in some cases, even longer. On the basis of the clearing arrangements described above, delays can occur at any or all of the three levels of the clearing mechanism: the commercial bank level, the central bank level, and the level of the Clearing House.

Several factors have been identified as responsible for delays in settlements at the level of commercial banks. The first is the relative unfamiliarity of a great number of banks with the mechanics of the clearing system, notwithstanding the fact that the Clearing House has been in operation for a number of years. This unfamiliarity appears to reflect a relative lack of interest by banks in this new payments channel, due partly to the smooth working of other channels and partly to the low level of intra-Community trade, which makes such transactions a small proportion of the banks' overall operations. A second cause of delay is said to be the relatively low priority given by many banks to transactions channeled, or to be channeled, through the Clearing House. An additional reason for delays is attributed to efforts by banks to accumulate transactions of the same type before acting on them. This leads to delays, in particular in situations where branches of banks handle the original transaction.

Delays in regional transactions may also occur in some central banks when there is a shortage of foreign exchange, especially if trade with other member countries of the Community is given a low priority in foreign exchange budgets or other formal or informal foreign exchange plans. As a result, transactions cleared through the Clearing House may have to wait their turn in these central banks.

At the level of the Clearing House, some central banks do not always receive promptly data on the applicable exchange rates of their currencies in terms of the WAUA. As a result, transactions are not processed until the confirmed rates are available. This problem is generally ascribed to difficulties in regional communications.

Delays in the clearing process also arise at other points besides those examined above and cannot be

attributed to the financial institutions involved. Such delays are primarily due to the inadequate system of communications and postal services in the region. Telephone and telex contacts are said to be effected more rapidly and efficiently via Europe than directly between member countries of the Community. This is also the case, and perhaps even more so, for postal connections. As a result, shipment of documents related to regional trade and other payments is extremely slow.

Aside from problems directly related to the clearing mechanism that affect its speed and efficiency, the settlement period of one month is regarded by some observers as a problem of equal importance. Countries that normally tend to be in a debtor position with their partners in the Clearing House have suggested that the settlement period is too short and that the efficiency of the clearing mechanism would be enhanced by extending the settlement period. Such an extension would, of course, increase the net credit extended to debtor countries within the settlement period, which at present is provided without payment of interest.

By contrast, central banks that are commonly in a creditor position tend to argue that the current settlement period of one month is already too long and should be reduced to two weeks. Some of them also argue that interest should be payable on outstanding balances on a daily basis, thus eliminating the present arrangement whereby no interest is paid on balances accumulating within the settlement period. These proposals, in turn, are regarded as unacceptable by debtor countries.

VI Currency Convertibility, Monetary Integration, and Intraregional Trade: Views in Member Countries of the Community

A primary objective of the Fund's mission to selected member countries of the Community and the related Fund questionnaire forwarded to all countries in the Community was to elicit views on the prospects for attaining convertibility among the currencies of the member countries in the short to medium term and on the methods for achieving it. Related to these central issues were questions pertaining to the significance of inconvertibility for intraregional trade and to the prospects for adapting existing currency arrangements, together with longer-term problems, such as the effects of convertibility on investment flows. This chapter summarizes these views. In addressing these questions, representatives of the individual member countries emphasized that their responses were related only to the technical issues involved and were not intended to prejudge the important policy matters that would need to be dealt with at a later stage.

Convertibility and Intraregional Trade

Both the discussions with the authorities of the Community members and the Fund questionnaire dwelt at some length on the major factors behind the low level of intra-Community trade, focusing particularly on the relationship between currency convertibility and the growth of trade within the Community. In this regard, they were intended not so much to evaluate the intrinsic features of those factors identified as obstacles to the growth of intra-Community trade but rather to determine the relative importance of these obstacles, so as to assess the significance of currency convertibility as one of a number of factors affecting the growth of trade. Although several other studies had addressed this question in detail,[19] the responses received by the mission represented an actual assessment of the relative weights attached by country authorities and other officials to the determinants of trade within the region and to the impediments to an increase in that trade.

The dominant factor inhibiting the expansion of trade within the region was seen to be the current production profiles in the member countries of the Community. Underpinning those profiles are factors of long-term economic significance. Viewed historically, the present production patterns and capacities in these countries represent the outcome of investment flows and trends in the exploitation of resources. Trade flows have largely consisted, on the export side, of raw materials and other primary products destined for the markets of the industrial countries (in which the former metropolitan countries have continued to play an important, though declining, role) and, on the import side, finished investment and consumer goods originating largely in the industrial countries. In many respects, the production profiles in many member countries have quite competitive characteristics, particularly in regard to agricultural production. Although some trade within the region does take place in agricultural commodities, usually in order to accommodate seasonal demand/supply variations, a significant expansion of trade in these commodities within the Community was viewed as unlikely in the foreseeable future. As for manufacturing production, the emphasis in most member countries has been, almost wholly, on the development and enhancement of import substitution industries. Thus, trade in manufactured goods of local origin among member countries has been low, with little prospect of any major increase in the short term, since production capacity in individual member countries is generally insufficient to meet domestic demand. Any appreciable improvement in the prospects for growth of intra-Community trade was therefore seen to be dependent on a Community-wide reorientation of investment flows in order to exploit production po-

[19] See, for example, *Monetary and Financial Obstacles to Trade Expansion and Possible Improvements in Payment Relations,* a report prepared in March 1979 by the United Nations Conference on Trade and Development (UNCTAD) in collaboration with the Economic Commission for Africa.

tential. This would need to take into account the different levels of economic development among member countries, with important implications for the structure and location of investment.

The dominance of trade between the member countries of the Community and the developed countries in the total trade of the Community depends on efficient transportation and communications systems between these two groups of countries. By contrast, transportation and communication facilities within the Community have been largely neglected until recently. There was general agreement in the member countries that transportation facilities in the region were inadequate for handling any sizable increase in the volume of trade. Special mention was made of such problems in the member countries that are landlocked. Poor communications were viewed as another major impediment to intra-Community trade. Channels of communication between individual member countries and Europe and the United States were considered to be fully capable of handling the needs of modern-day commerce, whereas between neighboring capitals of member countries, in some cases only a hundred or so miles apart, poor communication often caused inordinately long delays in completing transactions. Although the transportation and communication systems in the region had improved over the last decade, inadequate facilities remained serious obstacles to any broad-based attempt to increase intra-Community trade.

Important steps taken at the Community level to establish a program of tariff harmonization among member countries, with the aim of eventual elimination of customs tariffs within the region by 1989, have enhanced prospects for intraregional trade. On the other hand, quantitative import restrictions of a global nature are in force in several member countries, partly reflecting the policy response by the authorities to deep-seated balance of payments problems. In addition to customs tariffs, which have as a primary purpose the generation of budgetary revenues, several countries are applying other cost restrictions on imports, such as import deposit schemes and import surcharges. In general, these trade restrictions were considered by the authorities in most member countries to have only a minor influence on intraregional trade, and little immediate effect on intra-Community trade was expected from their removal. On the export side, quantitative restrictions are usually applied for only a limited time because of supply shortages, mostly relating to commodities traded to non-Community countries.

The inconvertibility of the currencies of a number of the member countries of the Community is most evident in the range and depth of exchange restrictions applied in most of these countries. As was observed in Chapter III, some member countries maintain exchange systems that are free or relatively free of restrictions, while others continue to apply severe restrictions on payments and transfers for current international transactions. These restrictions are symptomatic of sustained balance of payments pressures in these countries. Almost all member countries maintain controls and restrictions on capital outflows while following policies that encourage capital inflows. None of them maintain discriminatory exchange restrictions. In general, exchange restrictions were not considered important in explaining the low level of intraregional trade. Indeed, a significant number of the exchange restrictions were related to payments and transfers for invisibles rather than to trade transactions, although it was noted that several countries were in arrears on their import payments. Although the dismantling of exchange restrictions was viewed as a step that would have a positive effect on monetary cooperation, the present circumstances of many countries were considered unlikely to foster any early initiatives toward a broad-based reduction of these restrictions. Such moves could only be made in conjunction with steps for a substantive adjustment effort to overcome balance of payments problems. This did not, however, rule out the possibility of beginning to harmonize exchange controls within the region with a view to rationalizing the restrictive system.

Approaches to Monetary Integration

Chapter II established a framework for a graduated approach to monetary integration to culminate in the eventual attainment of a complete monetary union, by which the countries belonging to the union would share a common currency and maintain a single exchange arrangement. This scenario was accompanied by a review of the preconditions that would be needed in order to move to the first phase of monetary integration. Three discrete stages on the path toward monetary integration were identified. The first stage, under which the participating countries would enter into a convertibility agreement, would enable the countries to maintain their existing currencies and exchange arrangements if they agreed to accept the currencies of other participating countries for all transactions within the region and to convert these currencies at exchange rates determined by cross rates vis-à-vis the reference currency or currencies in international markets. A more advanced form of monetary integration would take place under a partial monetary union in which, consistent with the terms of the convertibility agreement, exchange rates for currencies of the participating coun-

tries were, in principle and in fact, irrevocably fixed. The ultimate form of monetary integration was defined as a full monetary union, which would be established when a single currency was issued for all members by a central monetary authority.

The representatives of member countries of the Community, in their responses to the Fund questionnaire and in discussions with the Fund mission, unanimously ruled out the full monetary union as a viable option for the Community in the short term. The achievement of a monetary union in this form was regarded as the "ultimate objective" of monetary integration and thus as a long-term goal to be achieved through a step-by-step process of monetary cooperation. There was no attempt to predict the time frame within which monetary union could be achieved, but it was seen as consistent with the eventual attainment of complete economic integration within the Community. The probable difficulties in the move toward monetary union were recognized as formidable. In this regard, special reference was made to the cautious, long-term approach to monetary integration of the member countries of the European Community. Furthermore, it was recognized that an important cost of monetary integration, involving the harmonization of fiscal and monetary policies, was the surrender of autonomy in economic policy. This cost, it was noted, had to be weighed against the advantages to be gained from a monetary union, both for individual countries and for the Community as a whole.

The arguments pertaining to a full monetary union were applied, with much the same emphasis, to the possibilities for achieving a partial monetary union. It was felt that, because of the substantial differences in the present economic and financial circumstances of member countries of the Community, as reflected particularly in the unrealistic rates of exchange and inadequate foreign exchange reserves, the establishment of a system of fixed exchange rates among the currencies of member countries would create severe pressures that would soon undermine the fixed parity relationships. At the same time, it was recognized in most of the member countries that a partial monetary union, if introduced at an appropriate time, would constitute an important intermediate step toward full monetary integration. Such a system could not be made operable in the near term without action to limit severely the range of transactions to be covered by such an exchange regime. Although the exchange arrangement under such a regime would in substance be close to that of a full monetary union, it would still permit a limited degree of freedom for policymaking since each country would retain its own currency. Inherent in such a system was the possibility that, if severe pressures arose, the exchange rate could be changed or, as a more serious step, that a country could withdraw from the union.

In view of the probable difficulties in implementing either a full or a partial monetary union, the form of monetary integration viewed as most likely to gain the early support of the member countries of the Community was a convertibility agreement along the lines outlined in Chapter II. Because such an agreement, in principle, could operate within the existing exchange arrangements of member countries, which would retain their national currencies, complete harmonization of policies for the purposes of maintaining the viability of the monetary union would not be necessary. To be effective, the agreement would require elimination of exchange controls and restrictions within the region and relative uniformity of exchange controls and restrictions vis-à-vis third countries. Thus, a convertibility agreement would represent an early stage of monetary cooperation under which participating countries, while recognizing the need to take into account the requirements of other countries and of the Community as a whole, would be able to establish and retain national economic priorities and policies. However, it was generally agreed that the present large payments imbalances in a number of member countries must be eliminated before such a convertibility agreement could be considered feasible.

Preconditions for Convertibility

In accordance with the definition of "limited convertibility" given in Chapter II—i.e., full convertibility of currencies within the region—it was noted that certain preconditions must be met in order to make a convertibility agreement operationally viable. These preconditions would have, as a primary objective, the achievement by individual member countries of a reasonable degree of balance in the external sector. Recognizing that several member countries presently were experiencing severe balance of payments problems, an adjustment program employing the main economic policy instruments would need to be implemented, with sufficient time to achieve the desired results, before a convertibility agreement could be viewed as a practicable step.

Under the present circumstances of the member countries of the Community, another important factor pertained to preconditions for convertibility. It was recognized that, to be viable, limited convertibility would require a uniform degree of convertibility by member countries vis-à-vis the rest of the world. The absence of such uniformity would result in leakages,

by which the country or countries with the least restrictive exchange system would essentially act as a conduit for commodity and capital flows from countries with relatively weak balance of payments positions to those with stronger positions. Limited convertibility, therefore, had to be attained in a way that permitted countries with few exchange restrictions to retain their existing exchange systems, while those with more stringent restrictive systems would need to take steps to achieve the same degree of liberalization. This assumed, implicitly, that all countries would move toward reducing reliance on exchange restrictions. Thus, in the present situation, in which certain member countries maintained exchange systems essentially free of restrictions on payments and transfers for current international transactions, in accordance wth the obligations of Article VIII of the Fund's Articles of Agreement, other member countries would need to take action to reach the same degree of liberalization. In the context of payments and transfers for current international transactions, given the fact that the currency of one member country is fully convertible, all member countries would therefore need to achieve not only "limited convertibility," as defined, but also convertibility with respect to the currencies of all countries outside the Community. Under these conditions, a convertibility agreement obviously implied a much greater effort in terms of adjustment policies than one in which uniformity in the exchange system within the Community involved the maintenance of a relatively high degree of exchange restrictions vis-à-vis the rest of the world.

Convertibility and Investment Flows

Although a great deal of emphasis has been placed on prospects for the expansion of trade within the Community upon the attainment of currency convertibility within the region, the importance of convertibility for capital flows and for the generation of investment was also recognized. At present, investment flows between the member countries are insignificant. Currency convertibility within the region, as an important step of the movement toward economic integration, would have an ensuing benefit in the enhancement of mobility of both capital and labor. The extended market for goods and services that could be expected to follow currency convertibility should induce inflows of private capital from nonmember countries of the Community and should also generate capital flows within the region. However, certain requirements had to be met before these benefits could be realized. They included the prior harmonization, or even uniformity, of investment codes and regulations which, if left in their present divergent state, would tend to misdirect investment flows. Investors would need to be granted government guarantees against political and exchange risks. Certain drawbacks that could arise from the free movement of capital were also noted in several countries. Thus, the need to avoid a concentration of investment in countries currently benefiting from high rates of return on capital was given high priority. This problem was relevant with respect to inflows of capital from outside the region as well as to capital movements within the Community itself. It was also felt that capital flows deriving from currency convertibility should not include investment in speculative activities or in sectors that did not form an integral part of the development strategies of the individual member countries. Finally, a strong effort would be required to guard against the encouragement of investment that would penalize the landlocked countries within the Community. It was suggested that, in order to meet some of these problems, a "compensation fund" was needed to ensure that the benefits from investment in Community-wide activities were distributed equitably among members.

With these reservations in mind, a qualified approach was taken to short-term prospects for capital flows and investment within the region. The present weak balance of payments of a number of member countries of the Community was seen as a negative factor in any early movement to enhance such flows. Indeed, the possibility of achieving stable exchange rates and the related conditions necessary to facilitate capital flows was viewed as unlikely in the short term, with some officials taking an even more pessimistic view that in the present situation there was more possibility of an increase in restrictive practices than of liberalization of them. In summary, it was contended that the necessary conditions for convertibility, in order to promote balanced capital flows and investment within the region, included an adequate level of foreign exchange reserves, a sustained period of relative equilibrium in the balance of payments, and a satisfactory rate of inflation, together with political stability. However, circumstances within the region at present made it unlikely that these conditions would be attained in the near future. Nevertheless, the issue was considered to be of such importance that it should be the object of a separate, detailed study.

Role of the West African Clearing House

It was generally agreed that the West African Clearing House had an important role in facilitating financial

transactions in the region and that any increase in its effectiveness would be a further step in increasing monetary cooperation in the region and in moving toward eventual convertibility. An increase in effectiveness could come from a strengthening of the institutional arrangements of the Clearing House as well as from new initiatives to widen its sphere of influence.

The primary concern with the operation of the Clearing House in most countries was the problem of delays in settlements at the level of transactions between commercial and central banks as well as between the central banks and the Clearing House itself. A number of suggestions were made for strengthening administrative procedures for settlements, but these are outside the scope of this paper. Other suggestions to increase the effectiveness of the Clearing House included an expansion of the one-month settlement period and a reappraisal of the credit limits available to individual countries, which in the view of some participants in the Clearing House are too low. It was also noted that oil imports from Nigeria by member countries of the Community were not channeled through the Clearing House. This arrangement works to the benefit of importing countries, since at present each country maintains a bilateral arrangement with Nigeria for the settlement of oil import bills, yielding more advantageous settlement terms than would be possible if such transactions passed through the clearing accounts of the Clearing House. For this reason, as a means of increasing the coverage of transactions channeled through the Clearing House, it was suggested that special arrangements should be introduced to include oil transactions within the clearing mechanism. There was also qualified support for proposals to make obligatory the channeling of intra-Community transactions through the Clearing House. Although some reservations were expressed with regard to these proposals, a gradual move toward the compulsory use of the Clearing House was seen as a positive step that would be fully consistent with the movement toward convertibility.

There was considerable interest in possible benefits from making the West African Unit of Account (WAUA) more than a mere accounting unit. It was pointed out that the Clearing House itself is presently studying proposals for the issuance of travelers checks, denominated in WAUA, on behalf of its own members. In addition, suggestions have been made for arrangements among the central banks of the member countries of the Community for the repatriation of currency notes up to a certain limit. Other measures considered likely to lead to an improvement in the operation of the Clearing House include the establishment of a wider network of correspondent relationships between commercial banks in the region and more satisfactory arrangements to apply without delay important changes in exchange rates of the currencies of member countries of the Community vis-à-vis the WAUA. In this connection, agreement had already been reached on more flexible arrangements to apply exchange rate changes to transactions passing through the clearing mechanism. While continuing to provide for adjustments of intraregional exchange rates twice monthly, the Clearing House was now applying new exchange rates immediately whenever exchange rate action by an individual member country during the two-week period resulted in a substantially different rate vis-à-vis the reference or intervention currency. This change should avoid the rigidities of the previous system, which tended to penalize importing countries. However, it was noted that an element of exchange risk remained. Finally, some authorities considered that, in order to operate effectively, the Clearing House should have the support of a "reserve fund," which would provide credit support on a regular basis for the conduct of its operations. Although some contended that the Clearing House had been established to operate as a clearing mechanism and not as a credit institution, others felt that its operations could prove of more benefit to members if a certain amount of credit could be made available to assist deficit countries with their balance of payments problems. The supporters of the latter approach believed that these arrangements were not inconsistent with the basic purposes of the Clearing House.

VII Summary and Conclusions

1. This study has addressed itself to issues relating to the inconvertibility of the majority of the currencies of the countries belonging to the Economic Community of West African States. The absence of currency convertibility in the region is one of a number of obstacles to be overcome as these countries move toward the goal of economic integration. In this process, and especially in the sphere of monetary cooperation, the attainment of currency convertibility within the region is regarded by the authorities of member countries of the Community as one of a number of factors that would contribute to the growth of intraregional trade.

2. The concept of currency convertibility is both imprecise and elusive. Within the International Monetary Fund, a variety of concepts of convertibility have evolved in response to the broad objectives of policy. Central to an understanding of the concept of convertibility within the Fund is a perception that convertibility of a currency can be determined by the extent to which it can be used ("usability"), and exchanged ("exchangeability") and by the extent to which its exchange value can be assured. Under the definition of convertible currencies in the original Articles of Agreement of the Fund, the currency of a member was convertible only if the member had notified the Fund that it had accepted the obligations of Article VIII, Sections 2, 3, and 4. These obligations were intended to establish "market convertibility" (essentially, freedom from restrictions on payments and transfers for current international transactions) and "official convertibility." With the adoption of the Second Amendment of the Articles, which took effect on April 1, 1978, there is no longer a formal definition of a convertible currency, although by accepting Article VIII status members of the Fund agree to assume the responsibilities expressed in Article VIII, Section 4, including that of assuring the convertibility of foreign-held balances accumulated through current transactions. Apart from these legal questions, total convertibility of a currency can be defined as the completely unrestricted exchange of the currency of one country for the currencies of other countries without any limitation on usability for any type of foreign transaction. By contrast, total incovertibility would exist under circumstances in which there was complete inability to exchange the currency of one country for any other currency or to use it for any foreign transactions. Between these two extremes, which for obvious reasons do not exist in the real world, there is a wide range of degrees of convertibility.

3. For the purposes of this study, "limited convertibility" is defined as the unrestricted exchange and use of the currencies of countries within a region vis-à-vis each other—i.e., where all exchange restrictions vis-à-vis the other countries of the group have been eliminated. It is important to note that, in principle, this concept of convertibility extends beyond that embodied in Aricle VIII because it applies to the exchangeability and usability of currencies for capital transactions as well as for current transactions. For the purposes of establishing and maintaining convertibility among the currencies of a region, "limited convertibility" can be viable only if all countries maintain that convertibility uniformly vis-à-vis the currencies of countries outside the region. An attempt to introduce convertibility in the absence of such uniformity—as identified by differences in the coverage and restrictiveness of the exchange systems in the region—would lead to an outflow of capital through the country with the most liberal exchange system and would tend to undermine the process of monetary integration. For any group of currencies, the establishment and maintenance of limited convertibility, as defined, is therefore dependent upon relative uniformity in the exchange systems of the region —that is, a uniform degree of convertibility with respect to the currencies of third countries. It could be expected that this uniformity would be achieved by dismantling restrictions in countries where there are restrictive exchange systems rather than by introducing new restrictions in countries maintaining relatively liberal systems. In this respect, it can be noted that several countries in the Community have exchange systems that are free of restrictions in respect of current transactions vis-à-vis all other countries. In

present circumstances, therefore, "limited convertibility" is not a viable concept for the currencies of the region. Thus, the only meaningful concept of convertibility for the Community involves the attainment of full convertibility of all Community currencies vis-à-vis the currencies of third countries.

4. Before currency convertibility can be achieved among the member countries of the Community, certain preconditions need to be met. These essentially involve correction of the present balance of payments disequilibria in a number of countries of the region. Since the nature and extent of these disequilibria differ from country to country, the adjustment effort required in each country must also vary. Thus, the program of adjustment in any one country within the region clearly must be tailored to address the balance of payments problem in that country. Where the balance of payments problem is severe and the need for adjustment is large, the program to restore external balance will require a major and probably lengthy effort, involving all available policy instruments for demand and supply management and covering monetary, fiscal, incomes, and exchange rate policies. The adjustment will necessarily be gradual, providing the opportunity to reduce, over a period, the reliance on exchange restrictions. Only when the adjustment effort in the individual countries in the region has succeeded fully in attaining a reasonable degree of external balance, and when policy management in all countries of the region is directed toward making this balance sustainable, can there be *de facto* convertibility. At this point monetary cooperation can move forward to the more advanced stages of monetary integration. Upon the achievement of convertibility *de facto,* it follows that the countries of the region have eliminated, or are in a position to eliminate, their exchange restrictions.

5. Three distinct stages of monetary cooperation have been identified in this paper. These can be implemented successively once exchange restrictions have been eliminated.

(a) The first involves the establishment of a convertibility agreement under which all the participating countries agree to exchange and use freely the currencies of all members in regional transactions. Under such an agreement, countries can continue to issue their own currencies and to maintain their own exchange rate arrangements. Cross rates between currencies of countries in the region will reflect the rates prevailing for intervention currencies in the major exchange markets. A convertibility agreement will reduce uncertainty about foreign exchange transactions related to regional payments and can be expected to bring benefits to the region in the form of improved prospects for intraregional trade and investment in the medium to long term.

(b) The second, and more formal, stage involves the establishment of a partial monetary union in which all the participating countries agree to adhere to the same exchange rate regime and to set fixed exchange rates between their currencies. A partial monetary union would necessarily entail a diminution of the autonomy of individual countries in the conduct of economic policy. From the standpoint of individual countries within the region, other "costs" could be adduced to a partial monetary union because, for some of these countries, the need to coordinate and harmonize financial policies may limit their ability to pursue policies of their own choice, thereby constraining their ability to promote economic growth. The benefits of a partial monetary union for the region as a whole may therefore differ from the benefits for individual countries. This situation may be viewed as inevitable in terms of the quest for economic integration, but it may warrant the setting up of a compensation scheme for the benefit of countries that are adversely affected during the move toward integration.

(c) The ultimate form of monetary corporation is a full monetary union in which a single currency is issued by a central monetary authority for all member countries. Exchange rate risks are necessarily eliminated for regional transactions, and trade and capital flows within the region are facilitated by the removal of all financial barriers. As with a partial monetary union, the biggest single "cost" from the viewpoint of an individual country may be seen as the complete surrender of autonomy in regard to economic policy—a development that would be inevitable in the integration process.

6. The 16 member countries of the Community, all of which are members of the Fund, are availing themselves of the transitional arrangements of Article XIV, Section 2, of the Fund's Articles of Agreement. Legally, therefore, the currencies of these countries (11 in all) are inconvertible because these countries have not yet accepted the obligations of Article VIII. From the standpoint of each country's exchange system, wide variations are found in the degree of convertibility among Community currencies as measured by the maintenance and severity of their exchange restrictions. Although all 16 countries maintain various controls and restrictions on capital transactions, marked differences appear in respect of restrictions on payments and transfers for current international transactions. Several countries—namely, Liberia and the countries belonging to the West African Monetary Union—have exchange systems that are essentially free of restrictions on cur-

rent payments and transfers vis-à-vis all other countries. On the other hand, other countries, such as Ghana, Guinea, Guinea-Bissau, and Sierra Leone, maintain highly restrictive exchange systems and are presently incurring arrears on external payments obligations involving exchange restrictions. The restrictive exchange systems of many member countries of the Community, and particularly countries with external payments arrears, are indicative of serious balance of payments problems.

7. The extent of these differences in the restrictiveness of the exchange systems of the member countries of the Community is such that a full monetary union is not feasible as a short-term option. Rather, the union should be seen as a long-term goal, forming an integral part of the overall objectives of the regional integration effort. In this context, it can be noted that within the region there is already a fully operating monetary union in the form of the West African Monetary Union, whose experience provides useful guidance in considering a monetary union encompassing all member countries of the Community. The intermediate stage of monetary cooperation—a partial monetary union—although it would permit the participating countries to continue to issue their own currencies, would require the adoption of unified exchange rate arrangements with respect to third (non-Community) countries and the maintenance of fixed exchange rates between the currencies of members. The difference between these two forms of monetary union is one of degree, and a partial monetary union can also be regarded only as a longer-term prospect. Thus, the form of monetary cooperation that would be a reasonable first step for the Community would be a convertibility agreement under which participating countries would be able to maintain their individual currencies and exchange arrangements. Such an agreement, while incorporating a firm commitment by each country to abstain from imposing exchange restrictions for regional transactions and to support the convertibility of its currency vis-à-vis the currencies of other participating countries, would allow considerable autonomy for all countries in the formulation and conduct of economic policy. In particular, it would permit continuing flexibility and autonomy in exchange rate policy. For such an agreement to be viable in practice, member countries of the Community must address, both collectively and on a country-by-country basis, their immediate problems of external payments disequilibria since the correction of these imbalances is a precondition for convertibility. Depending on the severity of the payments disequilibria in individual countries, the adjustment process may be difficult and protracted.

8. The authorities of the member countries of the Community place considerable emphasis on improving the prospects for the growth of trade within the region. It has been suggested that intraregional trade would benefit directly from the attainment and maintenance of currency convertibility among the member countries. At present, intraregional trade is low and the causes are to be found not so much in factors such as currency inconvertibility but more fundamentally in the nature of production in the region. For both historic reasons and as a result of resource endowment, the production profiles of member countries tend, in general, to be competitive rather than complementary. While there are prospects for increasing intraregional trade, the required changes in production patterns, and the necessary investment flows that must precede these changes, cannot occur in the very short term. Over time, however, the correction of external disequilibria and the attainment of convertibility will clearly be important factors in facilitating an expansion of intraregional trade.

9. In sum, monetary integration within the Community, including the achievement of convertibility within the region, will require a carefully planned and coordinated approach by the participating countries. The principal ingredients of such a program of action are described below.

(a) The ECOWAS Secretariat has indicated that a suitable time frame for meeting the preconditions for convertibility within the Community would be 1981–89, the period that has already been set for the harmonization of trade policies within the Community. In the absence of externally caused disturbances, this period should be sufficient for countries with less severe balance of payments problems to achieve approximate equilibrium in their external accounts and to enable countries with deep-seated or structural balance of payments problems to formulate, implement, and register progress in their adjustment programs.

(b) In establishing this program of action, no set of policy prescriptions can be applied uniformly to all countries. What is required at the outset is for each country in need of adjustment to identify the extent and causes of its payments imbalance and, within the limits imposed by institutional arrangements and available policy instruments, to implement an appropriate program for restoring external equilibrium. In this context, it can be noted that several countries within the Community currently have adjustment programs supported by use of the Fund's resources.

(c) Consonant with the objectives of economic integration in the region and the anticipated benefits for the member countries of the Community, proposals

have been made for the establishment of a "reserve fund" to assist the adjustment efforts of member countries. This assistance could take the form of financial support provided by the stronger countries within the Community, possibly accompanied by assistance from outside the region, particularly from international financial institutions. The establishment of such a fund should be the object of a separate, detailed study.

(d) An integral part of the adjustment program will be the dismantling of existing exchange restrictions. A gradual improvement in the balance of payments in individual countries would permit a "freeze" on exchange restrictions, to be followed by a gradual liberalization of exchange systems consistent with the aim of achieving *de facto* convertibility. These moves could take place in conjunction with an agreement to establish uniform exchange controls in the region. As several member countries of the Community are already maintaining exchange systems free of restrictions on payments and transfers for current international transactions, the attainment of a uniform degree of liberalization within the region would effectively involve the elimination of exchange restrictions on current transactions vis-à-vis countries outside the region. This development would be fully consistent with the obligation of these countries, as member countries of the Fund, to reach a position in their exchange system that would enable them to accept the obligations of Article VIII of the Fund's Articles of Agreement.

(e) The principle of monetary cooperation within the region is already identified in the operations of the West African Clearing House, which, with the exception of one country, has the same membership as the Community. Within the limitations imposed by the low level of trade among the countries of the region, the Clearing House offers the benefits of a multilateral clearing arrangement. Although its achievements have so far been modest, as could be expected given the relatively short period of its operation, it has provided an institutional framework for increased use of Community currencies in intraregional transactions, thus offering a certain degree of convertibility of regional currencies. A number of proposals for improving the Clearing House have been discussed at length in other studies. Two key suggestions relate to increasing the usefulness and efficiency of the clearing mechanism and reducing the risks associated with transactions channeled through the Clearing House.

(i) Use of the Clearing House facilities for eligible regional transactions varies greatly in the individual member countries of the Community. The clearing arrangements are avoided completely by some countries, while others prefer to use traditional banking relationships for regional transactions. The use of the Clearing House can be encouraged by a more intensive program of education to extend information throughout the Community regarding the clearing facilities. In the interest of making the Clearing House more effective in intraregional trade, proposals have been made for instituting obligatory clearing of intraregional transactions through it. The outcome of such a development is uncertain, and it could actually generate opposition among transactors. However, it is desirable at an early date to increase the efficiency of the Clearing House's operations and to accelerate the flow of transactions through the clearing mechanism. This effort will require cooperation at all levels: the Clearing House itself, the central banks, and the commercial banks.

(ii) A problem frequently cited by commercial banks in connection with operations through the Clearing House is the additional risk element that is present in regional transactions even when the necessary documentation is in good order. For the banks, the clearing arrangements through the Clearing House would become a more attractive mechanism if such risks could be reduced or even eliminated. There appear to be sound arguments for transferring these risks from the commercial banks to the central banks by means of guaranteed immediate payments against documents in good order. Consideration could be given to the establishment within the Community of a risk insurance fund, whose operation should not add significantly to transaction costs.

Appendix
Exchange and Trade Arrangements in the Community

Exchange Rate Arrangements

The exchange arrangements maintained by member countries of the Economic Community of West African States (ECOWAS) as of December 31, 1980 are shown in Table 11. Of the 16 member countries, all except Ghana and Nigeria have opted to peg their currencies within relatively narrow margins to a single currency or to a basket of currencies. Ghana and Nigeria have informed the Fund that they are maintaining flexible exchange arrangements. Of the 14 countries with a currency peg, 9 exchange arrangements involve a peg to a single currency and 5 to a composite of currencies, of which 3 are pegged to the SDR.

Only one member country of the Community maintains multiple currency practices. Ghana's exchange rates differ from the official rate because of the imposition of cash margin deposits against import letters of credit, a 75 per cent surcharge on exchange allocations for foreign travel, and a 10 per cent bonus on all exports except cocoa. These exchange practices are applied for balance of payments reasons, and they are intended to discourage imports and foreign travel and to encourage exports.

The French franc and the U.S. dollar are the most frequently used intervention currencies. The French franc serves as the intervention currency in all seven countries that peg their currencies to the French franc, while the U.S. dollar is used as the intervention currency in Cape Verde, Ghana, Guinea, Guinea-Bissau, Mauritania, and Nigeria. The U.S. dollar is legal tender in Liberia. The Gambia and Sierra Leone use the pound sterling as their intervention currency.

Exchange Systems

To date, none of the member countries of the Community has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Thus, they all continue to avail themselves of the transitional arrangements under Article XIV.

Prescription of Currency

As indicated in Table 12, all member countries of the Community, with the exception of Liberia, have prescription of currency requirements. Currencies authorized for use in international settlements are generally convertible currencies or other selected currencies quoted by the central bank of the respective country. For the Operations Account countries[20] within the Community (i.e., the member countries of the West African Monetary Union plus Mali), settlements with France (and its Overseas Departments and Territories), Monaco, and other Operations Account countries are made in CFA francs, French francs, or the currency of any other Operations Account country. Among the member countries of the Community that have prescription of currency requirements, The Gambia has the least restrictions on settlements, which may be made in any foreign currency. By contrast, settlements in Guinea may be made only in specifically designated convertible currencies.

The only operative bilateral payments agreement in the Community is the one maintained between Cape Verde and Guinea-Bissau. Payments between these two countries are settled through clearing accounts in their respective central banks. A bilateral payments agreement between Niger and Nigeria lapsed at the end of 1977, but certain settlements between these two countries are still effected through special accounts of the

[20] Operations Account countries are the member countries of the West African Monetary Union (Benin, Ivory Coast, Niger, Senegal, Togo, and Upper Volta), Cameroon, the Central African Republic, Chad, the Comoros, the Congo, and Gabon. The convertibility of their currencies into the French franc at a fixed rate is guaranteed with certain qualifications by the French Treasury. The Operations Account countries, in turn, hold the larger part of their foreign exchange reserves in an "Operations Account" with the French Treasury (up to 35 per cent may be held outside the account). These reserves are converted into and denominated in French francs. The related pooling of reserves allows for some flexibility in the use of foreign exchange by individual member countries and involves the possibility of an automatic foreign exchange credit up to a specified limit.

Table 11. ECOWAS: Exchange Rate Arrangements
(As of December 31, 1980)

	Exchange Rate Pegged to					
	Single currency			Composite of currencies		Flexible Exchange Rate
Country	U.S. dollar	Sterling	French franc	SDR	Other composite	
Benin			CFAF 50			
Cape Verde					X [1]	
Gambia, The		D4				
Ghana						X [2]
Guinea				GS 24.69		
Guinea-Bissau				PG 44		
Ivory Coast			CFAF 50			
Liberia	L$1					
Mali			MF 100			
Mauritania					X [1]	
Niger			CFAF 50			
Nigeria						X [3]
Senegal			CFAF 50			
Sierra Leone				Le 1.367		
Togo			CFAF 50			
Upper Volta			CFAF 50			

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981* and *International Financial Statistics.*

[1] Trade-weighted basket of currencies.
[2] The exchange rate of the cedi is expressed in U.S. dollars but is periodically adjusted.
[3] The official middle rate for the U.S. dollar (the intervention currency) is determined on the basis of a basket of currencies.

Banque Internationale pour l'Afrique de l'Ouest (BIAO). Settlements under bilateral arrangements between a Community member and a nonmember are generally made in the currency or currencies agreed between the two countries.

Table 12. ECOWAS: Prescription of Currency
(As of December 31, 1980)

	Bilateral Payments Arrangements with			
		Non-ECOWAS member		Settlement of Intra-Community Payments Through the WACH [1]
Country	ECOWAS member	Fund member	Other	
Benin			X	Rarely
Cape Verde	Guinea-Bissau	X		[2]
Gambia, The				Frequently
Ghana		X	X	Generally
Guinea			X	Generally
Guinea-Bissau	Cape Verde	X		Sometimes
Ivory Coast				Rarely
Liberia [3]				Rarely
Mali		X	X	Rarely
Mauritania				No operations
Niger	Nigeria [4]			Rarely
Nigeria	Niger [4]			Sometimes
Senegal				Rarely
Sierra Leone			X	Generally
Togo				Rarely
Upper Volta				Rarely

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981;* and data provided by the national authorities.

[1] West African Clearing House.
[2] Cape Verde is not a member of the West African Clearing House.
[3] Practice does not exist in Liberia.
[4] The bilateral payments agreement between Niger and Nigeria lapsed at the end of 1977. Certain settlements, however, are still effected through special accounts.

Payments for intra-Community current account transactions are channeled by some member countries through the West African Clearing House. Settlements are commonly effected in selected convertible currencies.[21] Column 4 of Table 12 indicates the use of the Clearing House by banks in member countries of the Community for clearing of regional trade.

Imports and Import Payments

Table 13 presents an overview of the regime of imports and import payments as of the end of December 1980. With the exception of Liberia, all member countries of the Community impose quantitative and/or cost restrictions on imports. In a number of cases, these restrictions reflect priorities contained in formal foreign exchange and/or import plans. Only Cape Verde, The Gambia, and Liberia do not formulate such plans. In the member countries of the West African Monetary Union, some broad foreign exchange forecasting and planning takes place in the context of overall monetary planning by the Council of Ministers and the Executive Board of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). More explicit import programs are found in Benin and Upper Volta. Mali's annual import program distinguishes between clearing countries (countries with which Mali maintains bilateral pay-

[21] The pound sterling, French franc, U.S. dollar, Swiss franc, and deutsche mark. For a detailed description of the clearing mechanism, see the section on the West African Clearing House in Chapter V.

ments arrangements) and convertible area countries (all other countries). An allocation commission establishes import quotas for each private importer on the basis of his turnover. The most stringent import programs are those in Ghana, Guinea, and Guinea-Bissau, where a rigid system of exchange allocation is linked to an import licensing system based on the import program. A detailed annual foreign exchange budget is the basis for the import programs in Nigeria and Sierra Leone.

The comprehensive coverage of the import licensing systems in Ghana, Guinea, and Guinea-Bissau is underscored by the fact that all imports require a specific license, while in Mali all imports except those originating in member countries of the Community require an individual license. By contrast, in Cape Verde, The Gambia, Nigeria, Sierra Leone, Togo, and Upper Volta the majority of imports are permitted under an open general license and only selected imports require a specific license. All imports are permitted under an open general license in Benin, Ivory Coast, Mauritania, Niger, and Senegal, while no import license is required in Liberia.

Import surcharges and/or advance import deposits

Table 13. ECOWAS: Regime of Imports and Import Payments
(As of December 31, 1980)

	Import Control Mechanism		Import Surcharge or Advance Import Deposits	Foreign Exchange for Imports		Preferential Treatment of Imports by Origin	
Country	Import plan or program	Licensing system		Freely available for authorized imports	Payments arrears	Community	Non-Community
Benin	Annual program [1] WAMU program [2]	Open		X			French franc area
Cape Verde	None	Open and specific		X			
Gambia, The	None	Open and specific	Import tax		X		
Ghana	Recurrently revised annual foreign exchange program	Specific	Cash margin deposit		X		
Guinea	Five-year plan, annual foreign exchange program	Specific	Surcharge		X		
Guinea-Bissau	Monthly exchange program	Specific			X		
Ivory Coast	WAMU program [2]	Open		X			
Liberia	None	Specific	Surcharges	X			
Mali	Annual program	Specific		X		No license required	European Community
Mauritania	Informal programming	Open			X		
Niger	WAMU program [2]	Open		X			France and Operations Account Countries
Nigeria	Annual foreign exchange budget	Open and specific		X			
Senegal	General [2] and special [3] annual program	Open		X			French franc area
Sierra Leone	Annual foreign exchange program	Open and specific	Invoice entry tax and special licensing		X	Lower license fee	
Togo	WAMU program [2]	Open and specific		X			French franc area
Upper Volta	Annual program [1] WAMU program [2]	Open and specific	Customs stamp tax plus surcharge	X			French franc area

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981;* and data provided by the national authorities.

[1] Applies to specific commodities only.

[2] Overall planning of foreign exchange needs within the framework of monetary planning of the West African Monetary Union (WAMU).

[3] Special annual program with global quotas for imports from all nonmember countries of the European Community outside the former French franc area.

are in force in 6 of the 16 member countries of the Community. The Gambia levies a tax of 1 per cent of the c.i.f. value of imports, unless otherwise specified. In Ghana, cash margin deposits are prescribed on the opening of letters of credit for most imports, with different rates by commodity. Rates are zero for crude oil and fertilizers and reach a maximum of 65 per cent for most commodities for private consumption, including passenger cars. In Guinea, all imports are subject to a surcharge except when imported by the "mixed economy companies" (private export-import firms that commonly pay for their imports with foreign exchange earned from their own exports or other sources rather than with foreign exchange officially allocated to them). In Liberia, surcharges are applied to imports of luxury goods at the rate of 25 per cent of the c.i.f. value, and to "normal" items at the rate of 15 per cent of the c.i.f. value. Sierra Leone applies an invoice entry tax and a special licensing fee of 9 per cent each on the c.i.f. value of all imports not specifically exempted by the Ministry of Finance. Finally, in Upper Volta most imports are subject to a 6 per cent customs stamp tax and an equal import surcharge.

Foreign exchange is made freely available for authorized imports in Benin, Cape Verde, The Gambia, Ivory Coast, Liberia, Mali, Niger, Senegal, Togo, and Upper Volta. However, at the end of 1980 The Gambia, Ghana, Guinea, Guinea-Bissau, Mauritania, and Sierra Leone had arrears in import payments. In Nigeria import payments exceeding ₦ 100.000, or import contracts exceeding ₦100.000 and not covered by a letter of credit, must be registered with the Central Bank and the Ministry of Trade.

Only two member countries of the Community grant preferential treatment to imports from all other member countries. Mali exempts imports originating in a member country of the Community from individual licensing and requires only an import certificate. Sierra Leone reduces to 5 per cent the invoice entry tax and the special licensing fee for all imports from countries belonging to the Community, compared with 9 per cent for all other imports. Preferential treatment of imports originating outside the Community is granted by Benin, Mali, Niger, Senegal, Togo, and Upper Volta, in most cases to the benefit of countries belonging to the former French franc area. It should also be noted that all member countries of the Community are signatories to the Lomé Convention and thereby grant preferential treatment to imports from all member countries of the European Community.

Exports and Export Proceeds

Table 14 summarizes the main features of the regulation applying to exports for each member country of the Community. Export licensing is generally designed to ensure sufficiency of domestic supplies. Most member countries do not apply explicit quantitative restrictions on exports. Only Ghana, Guinea, and Nigeria make all exports subject to an export license. Certain member countries maintain export prohibitions for selected countries in accordance with United Nations resolutions but have no other general restrictions.

Though only a minority of member countries of the Community have explicit quantitative restrictions on exports, the majority have some export licensing. Only Benin, Ivory Coast, and Mauritania make all exports free of a licensing requirement, while in Liberia licensing applies only to a few selected products. Senegal, Sierra Leone, Togo, and Upper Volta have licensing of a general nature rather than by individual export contract, while The Gambia subjects some commodities to an individual license and others to an open general license. In all other countries, individual export licenses must be obtained by exporters.

In most member countries of the Community exporters must not only repatriate export earnings but are also subject to a surrender requirement. Liberia, however, permits exporters to dispose of their export earnings freely. Guinea allows "mixed economy companies" to keep their export proceeds abroad to pay for their imports and operating requirements.

Ghana is the only country that has an export promotion scheme, which takes the form of an export bonus applied to export proceeds in external African currencies or convertible currencies for all exports except cocoa. The bonus amounts to 10 per cent of the export value.

Except for Mali, which exempts exports to member countries from the usual licensing requirement, no other member country of the Community grants preferential treatment for exports to other member countries.

Payments for and Proceeds from Invisibles

Table 15 summarizes broadly for the member countries of the Community the principal regulations pertaining to invisibles, covering primarily private and official travel, the transfer of income from investments, and the repatriation of wages and salaries. Liberia and the member countries of the West African Monetary Union are the only member countries of the Community that do not impose restrictions on payments and transfers for current invisible transactions. In all other countries either a permission or a more stringent form of regulation, an approval, or even an authorization (Cape Verde and Guinea-Bissau) is required. In all

member countries of the West African Monetary Union and in Mali, all payments for invisibles to France (and its Overseas Departments and Territories), Monaco, and the Operations Account countries are permitted freely, while all others require approval by the competent authority; the latter requirements do not involve exchange restrictions.

Limitations on foreign exchange for travel in the form of exchange allocations are found in all countries other than Liberia and the member countries of the West African Monetary Union. The amounts differ widely from country to country and by purpose of travel, i.e., tourist or business. Apart from the general authorization or approval requirement for the repatriation of profits, five countries (Ghana, Guinea, Guinea-Bissau, Nigeria, and Sierra Leone) impose additional restrictions on the percentage of profits that can be repatriated. The percentages applying to each country are not disclosed. However, in Guinea the repatriation of at least 20 per cent of profits is guaranteed. Six of the 16 member countries of the Community impose restrictions on the percentage of wages and salaries that foreign workers can transfer to their home countries. In Ghana 40 per cent of the net annual earnings may be remitted, up to a maximum of US$2,600 per year plus leave pay, while in Sierra Leone the limit is 40 per cent of the gross taxable annual wages and salaries or Le 8,000, whichever is lower. In Guinea the percentage differs between employees in the public sector, who may remit 40 per cent of net monthly salaries, and those in the private sector, who are limited to 30 per cent. In Mauritania the permissible percentage varies by family status; in Niger the percentage is normally 50 per cent of net pay, while in Nigeria the limit is 50 per cent of the gross annual income and applications in excess of this limit are examined on their merits. Countries with payments arrears for imports (see Table 13) generally have payments arrears for their invisibles also.

Proceeds from invisibles have to be repatriated and surrendered in all member countries of the Community except Liberia. The member countries of the West African Monetary Union and also Mali, however, exempt from this requirement the proceeds from invisibles accruing in France (and its Overseas Departments and

Table 14. ECOWAS: Regime of Exports and Export Proceeds
(As of December 31, 1980)

Country	Quantitative Restrictions on Exports	Type of Export Licenses	Repatriation or Surrender Requirement	Export Promotion Schemes	Preferential Treatment of Exports to Community Members
Benin	No [1]	None	Surrender		
Cape Verde	No	Individual	Surrender		
Gambia, The	No	Individual/ open	Surrender		
Ghana	Yes	Individual	Surrender	Export bonus	
Guinea	Yes	Individual	Surrender [2]		
Guinea-Bissau	No	Individual	Surrender		
Ivory Coast	No [3]	Individual	Surrender		
Liberia	No [3]	Selected products	None		
Mali	No	Individual	Surrender		No export license required
Mauritania	No [4]	None	Surrender		
Niger	No [3]	Individual	Surrender		
Nigeria	Yes [5]	Individual	Surrender		
Senegal	No [3]	Individual (other than French franc area)	Surrender		
Sierra Leone	No [5,6]	General	Surrender		
Togo	No [3]	General	Surrender		
Upper Volta	No [3]	General	Surrender		

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981;* and data provided by the national authorities.

[1] Exports to South Africa and Zimbabwe are prohibited.
[2] Except "mixed economy companies," which are allowed to keep their export proceeds abroad to pay for their imports and operating requirements.
[3] Exports to South Africa are prohibited.
[4] Exports to Israel and South Africa are prohibited.
[5] Exports to Namibia and South Africa are prohibited.
[6] Restrictions on selected goods.

Table 15. ECOWAS: Treatment of Invisibles
(As of December 31, 1980)

Country	Payments for Invisibles: Approval or authorization required	Limited travel allocation	Limit on repatriation of profits	Limit on transfer of salaries	Proceeds from Invisibles: Surrender requirement
Benin	Approval [1]	Yes	No	No	Yes [1]
Cape Verde	Authorization	Yes	[2]	[2]	Yes
Gambia, The	Authorization	Yes	No	No	Yes
Ghana	Approval	Yes	Yes	40 per cent of net salary	Yes
Guinea	Authorization	Yes	Yes	40/30 per cent of net salary [3]	Yes
Guinea-Bissau	Approval	Yes	Yes	Yes	Yes
Ivory Coast	Approval [1]	Yes	No	No	Yes
Liberia	No	No	No	No	No
Mali	Approval [1]	Yes	No	No	Yes
Mauritania	Approval	Yes	No	Varying percentages	Yes
Niger	Approval [1]	Yes	No	50 per cent of net salary	Yes [1]
Nigeria	Approval	Yes	Yes	50 per cent of gross income	Yes
Senegal	Approval [1]	Yes	No	No	Yes [1]
Sierra Leone	Approval	Yes	Yes	Up to Le 8,000 or 40 per cent of gross salary	Yes
Togo	Approval [1]	Yes	No	No	Yes [1]
Upper Volta	Approval [1]	Yes	No	No	Yes [1]

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981;* and data provided by the national authorities.

[1] Except France, Monaco, and Operations Account countries.
[2] Not available.
[3] 40 per cent for employees in public sector; 30 per cent in private sector.

Territories), Monaco, and the Operations Account countries.

Capital Transfers

Table 16 indicates that, with the exception of Liberia, all member countries of the Community control or restrict the outflow of foreign exchange in connection with the acquisition of foreign assets by nationals. Capital outflows are not normally permitted by Cape Verde and are prohibited to nationals by Guinea. In all other countries explicit approval by the authorities, generally the central bank, is required. Usually, approval is given only when special circumstances warrant it; in all other cases it is denied. However, in the member countries of the West African Monetary Union and in Mali, capital outflows destined for France (and its Overseas Departments and Territories), Monaco, and the Operations Account countries are freely permitted.

With respect to capital inflows, a distinction has been made in Table 16 between those resulting from domes-

Table 16. ECOWAS: Controls on Capital Flows
(As of December 31, 1980)

Country	Capital Outflows: Type of exchange controls	Capital Inflows: Borrowing abroad	Foreign investment
Benin	Restricted [1]	Approval	Approval
Cape Verde	Not normally permitted	Approval	Approval
Gambia, The	Approval	Free	Free
Ghana	Approval	Approval	Approval
Guinea	Prohibited [2]	Approval	Approval
Guinea-Bissau	Approval	Approval	Approval
Ivory Coast	Approval [1]	Approval [1]	Approval [1]
Liberia	None	Free	Free
Mali	Approval [1]	Approval [1]	Free
Mauritania	Approval	Approval	Approval
Niger	Approval [1]	Approval	Approval
Nigeria	Approval	Approval	Approval
Senegal	Approval [1]	Approval	Approval
Sierra Leone	Approval	Approval	Approval
Togo	Approval [1]	Approval	Approval
Upper Volta	Approval [1]	Approval	Approval

Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981;* and data provided by the national authorities.

[1] Except with respect to France, Monaco, and the Operations Account countries.
[2] With respect to nationals.

tic residents borrowing abroad and those resulting from foreign investors acquiring domestic real and/or financial assets. Both types of transaction involve the transfer to foreigners of a title to domestic financial or real capital. Borrowing abroad by domestic residents requires approval in all member countries of the Community except The Gambia and Liberia. Foreign investments in member countries of the Community generally require approval by the central bank; they are free of restrictions only in The Gambia and Liberia. In the member countries of the West African Monetary Union, special controls (in addition to any applicable exchange control requirements) are maintained over borrowing abroad, inward foreign direct investment, and all outward investment in foreign countries, as well as over the issuing, advertising, or offering for sale of foreign securities. Such operations require prior authorization by the responsible ministries in each country. Except for controls over foreign securities, these measures, however, do not apply to the member countries of the Community, nor to France, Monaco, and the Operations Account countries.

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