COMISSÃO DA CEDEAO

ECOWAS COMMISSION **COMMISSION DE LA CEDEAO**

REPORT ON THE MACROECONOMIC CONVERGENCE OF MEMBER STATES OF THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS) IN 2010

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ABBREVIATIONS – ACRONYMS

WABA	West African Bankers Association
WAMA	West African Monetary Agency
EPA	Economic Partnership Agreement
ADB	African Development Bank
BCEAO	Central Bank of West African States
NCC	National Coordinating Committee
NEPC	National Economic Policy Committee
CVE	Cape Verdean Escudo
ECOMAC	ECOWAS Macroeconomic Convergence Database
CFA	CFA Franc
IMF	International Monetary Fund
FDI	Foreign Direct Investment
WAMI	West Africa Monetary Institute
EUROTRACE	Software for External Trade Data Compilation
EMCP	ECOWAS Monetary Cooperation Programme
GDP	Gross Domestic Product
UNDP	United Nations Development Programme
HIPC	Highly Indebted Poor Countries
CET	Common External Tariff
VAT	Value Added Tax
EU	European Union
UEMOA	West African Economic and Monetary Union
FTA	Free Trade Area
WAMZ	West African Monetary Zone

EXECUTIVE SUMMARY

As part of efforts to establish an economic and monetary union within ECOWAS, the Authority of the Community adopted a set of decisions including the 2001 Decision on the creation of a multilateral surveillance mechanism for the economic and financial policies of Member States. Among other things, the Decision provides for the preparation of quarterly reports on the status of macroeconomic convergence within the Community. The report comes against this background and centres on the following areas: (i) Developments in the global economic environment; (ii) Analysis of the economic and financial position of ECOWAS; (iii) Performance in terms of convergence; (iv) Harmonisation of policies and institutional arrangements; (v) Prospects; and (vi) Conclusions and recommendations.

As regards the assessment of the international financial situation in 2010, there was a 5% increase in global economic production as against a 0.5% decline in 2009, a growth driven by developing and emerging economies, which recorded a 7.3% growth in 2010 as against 2.7% in the previous year.

The recovery was achieved in a context marked by:

- a slight increase in inflation compared to 2009, linked to continued inflationary pressures in developing and emerging countries; proper control of public finance in sub-Saharan Africa;
- a deterioration of the structural budgetary deficit in the advanced countries in contrast with the control of public finance in Sub-Saharan Africa;
- improvement in the current account deficit in advanced countries and sub-Saharan Africa in contrast to the situation in other regions of the world; and
- a rise in commodity prices leading to improvement in the external position of ECOWAS Member States in comparison to 2009.

The analysis of the economic and financial position of ECOWAS reveals macroeconomic difficulties that have impeded the attainment of the 7% minimum growth rate considered necessary to effectively reduce poverty in West Africa. In addition, inflationary pressure rose in 2010 compared to the preceding year. In the area of public finance, budgetary deficit remained high in 2010, due to low tax revenue. Similarly, due to the deterioration of the current account balance in most countries, foreign exchange reserves declined in 2010 compared to the previous year's level.

In the case of macroeconomic convergence, an appraisal of the situation in Member States reveals that further effort is required if the set goals are to be attained. The macroeconomic convergence situation deteriorated in 2010 compared to the average over the preceding five years (2005-2009). Similarly, in comparison with 2009, the status of convergence in 2010, which appreciated due to the number of countries achieving their targets, deteriorated with regard to criteria on end-of-period inflation, monetary financing of the budget deficit, wage bill/ tax revenue ratio, positive real interest rate, and stability of the effective exchange rate. For the other criteria, there was no change in the number of countries that achieved their targets.

Performance in terms of convergence was mixed given the number of convergence criteria met per country in 2010, compared to the average situation over the preceding five years. Thus, some countries (Benin, Burkina Faso, Cape Verde, Guinea Bissau, Mali, Niger, Senegal and Togo) improved performance by increasing the number of convergence criteria satisfied in 2010, compared to the average for the 2005 – 2009 period. On the other hand, the number of convergence criteria satisfied by Côte d'Ivoire, The Gambia, Ghana, Guinea, Nigeria and Sierra Leone reduced in 2010 compared to the situation over the preceding five years. The *status quo* was maintained in Liberia.

In 2010, countries experienced fewer difficulties in meeting the criteria on monetary financing of the budget deficit (12 performing countries), foreign exchange stability (10 performing countries), gross foreign reserves (10 performing countries) and inflation (9 performing countries). Conversely, it was difficult to meet other criteria, particularly on the wage bill-tax ratio and budget deficit. This situation demonstrates the need to strengthen Member States' tax collection capacities in order to ensure adequate funding for public expenditure.

Regarding the harmonisation of policies and institutional arrangements, further effort is required in spite of the progress made in that area. In this regard, it is necessary for Member States to fast-track the implementation of the different legal instruments adopted by the Community, particularly the Protocol on free movement of persons and goods, right of residence and establishment, as well as the provisions of the trade liberalisation scheme.

With regard to prospects, the report outlines projects commenced in the framework of the implementation of the multilateral surveillance mechanism, as well as the roadmap for the establishment of the ECOWAS single currency by 2020. Among others, these projects focus on the preparation of multi-year convergence programmes, adoption of a convergence pact by Member States, harmonisation of convergence criteria within the Community, and implementation of activities on the roadmap for the ECOWAS single currency programme.

Finally, the following recommendations were made with a view to fast-tracking the macroeconomic convergence process:

- acceleration, by Member States, of the implementation of different legal instruments adopted by the Community, particularly the Protocol on free movement of persons and goods, right of residence and establishment, as well as the relevant provisions of the trade liberalisation scheme;
- preparation, validation and transmission of periodic macroeconomic convergence reports by Member States to the ECOWAS Commission within the prescribed deadlines and in line with the framework adopted;
- continued and intensified efforts by Member States to reduce excessive budget deficits, and promotion of an acceptable budget and borrowing policy;
- adoption, by the Member States, of a policy on the rationalisation of budget expenditure;
- establishment by WAMA of a tool for calculating the real exchange rate, as well as the stability of the exchange rate; and
- continued efforts by the ECOWAS Commission to build the capacities of the NCC/ NEPC.

INTRODUCTION

The establishment of a single economic and monetary area in West Africa has always been a major goal of ECOWAS. To this end, the Heads of State and Government of ECOWAS Member States, through Decision A/DEC.2/7/87 adopting an ECOWAS monetary cooperation programme, showed their will for the creation of a single monetary area within ECOWAS.

It is in that context that Decision A/DEC.7/12/99 adopting ECOWAS macroeconomic convergence criteria was taken. The instrument thus adopted comprises ten criteria comprising four primary and six secondary criteria.

In order to make the surveillance of macroeconomic policies operational, Decision A/DEC.17/12/01 establishing the mechanism for multilateral surveillance of economic and financial policies of ECOWAS Member States was adopted by the Authority of Heads of State and Government. According to Article 1 of the Decision, "*surveillance aims at achieving closer coordination of macroeconomic policies of Member States and the convergence of their economies".*

Following this Decision and the transformation, in December 2006, of the Executive Secretariat into a Commission, the Directorate of Multilateral Surveillance was created within the Department of Macroeconomic Policy. This directorate is responsible for the implementation of multilateral surveillance deemed necessary for the evaluation of the economic performances of ECOWAS Member States and particularly, the implementation of the roadmap for the creation of the ECOWAS single currency by 2020, adopted by the Convergence Council on 25 May 2009.

In this respect, it is expected that quarterly multilateral surveillance reports on ECOWAS will be prepared based on the reports of the National Coordination Committee/ National Economic Policy Committees. The reports form the basis of multilateral surveillance.

This report comes on the heels of the NCC/NEPC meeting held in Bamako from 2 to 6 May 2011, which focused on the analysis of reports on the economic and financial position of Member States in 2010. It also takes due account of information gathered during the joint supervisory missions fielded to the Member States in the first quarter, which centred on the following:

(i) Developments in the global economic environment;

(ii) Analysis of the economic and financial situation of ECOWAS;

(iii) Performance in terms of convergence;

(iv) Harmonisation of policies and institutional arrangements;

(v) Prospects; and

(vi) Conclusions and recommendations

I. DEVELOPMENTS IN THE GLOBAL ECONOMIC ENVIRONMENT[1]

1.1. WORLD ECONOMIC GROWTH

The year 2010 was marked by continued world economic recovery following the economic and financial crisis of 2008. However, the extent of this recovery varied considerably from one region to another. Global economic production increased by 5% in 2010 compared to 0.5% in 2009, driven by emerging and developing economies, which recorded a 7.3% growth in 2010 compared to 2.7% the previous year. The performance of these countries was influenced primarily by Brazil, China and India, mainly as a result of the dynamic investment, exportation and private consumption.

In developed countries, economic growth was limited to 3% in 2010, compared to a decline of 3.4% a year earlier. Slow GDP growth in these countries would be linked to the gloomy American labour market and the sovereign debt tensions of countries outside the Euro zone, decline in consumption, fall in exports, and extremely aggressive budget sanitization plans.

In the United States, economic recovery was confirmed with a growth rate of 2.8% in 2010 compared to a 2.6% decline in 2009 due to the different budgetary measures adopted. These measures led primarily to increased consumer spending. Business investments remained high throughout the year.

In Japan, the economy grew by 4.3% in 2010 compared to a 6.3% decline in 2009, due to consumption and private investment.

In the emerging countries of Asia, the dynamic economies of China and India strengthened the region's economic growth which recorded a 7.1% progression in 2010 compared to 2.5% in 2009, due to industrial production, Gross Fixed Capital Formation (GFCF) and trade. In China, the GDP growth rate was 10.3% in 2010, compared to 9.2% in 2009, due to private investment and exports.

In the euro zone, GDP in volume recorded a 1.8% progression in 2010, compared to a 4.1% decline in 2009. This modest recovery of economic activity is attributed to the financial problems that shook some countries in Europe throughout 2010.

In the United Kingdom, GDP in volume pegged at 1.7% in 2010 compared to a 4.9% decline in 2009, attributable to spending in the construction and company services sectors and finance.

In Latin America and the Caribbean, *there was a* 5.7% rise in real GDP in 2010, compared to a regression of 1.7% in 2009, due to the strong recovery in most of the majority in the region, particularly Brazil (7.5% in 2010 compared to 0.2% in 2009), Chile (5% in 2010 compared to 0.5% in 2009), Colombia (4.7% in 2010 compared to 0.8% in 2009), and Peru (8.3% in 2010 compared to 0.9% in 2009).

In Sub-Saharan Africa, real GDP growth rate stood at 5% in 2010 compared to 2.8% in 2009, due to the implementation of support and/or protective measures for domestic household demand (cash injection, drop in key interest rates, etc.) This increase in growth rate is also attributable to the recovery in exports and commodity prices which encouraged strong domestic demand in several countries.

[1] IMF: "World Economic Outlook" April 2011 and "Regional Economic Outlook, Sub-Saharan Africa", April 2011.

1.2. INFLATION AND UNEMPLOYMENT

Dynamism in global economic activity was achieved in a context marked by a slight increase in inflation compared to 2009. This trend reflects continued inflationary pressures in emerging and developing countries, causing consumer prices to vary at 6.2% in 2010 against 5.2% in 2009. Price increases were also observed in advanced countries with inflation at 1.6% in 2010 compared to 0.1% the previous year.

In the United States, inflation pegged at 1.2% and unemployment, 9.6% by the end of 2010.

In the United Kingdom, inflation was 3.3% in 2010 while unemployment stood at 7% in 2010 against 7.5% in 2009.

In the Euro zone, annual increase in the Consumer Price Index (CPI) was 1.9% in 2010. The rate of unemployment stood at 10.1% in 2010 compared to 9.4% in 2009.

In the emerging countries of Asia, inflation pegged at 4.3% and unemployment, 4.1% in 2010.

In Japan, annual inflation stood at 0.1% and unemployment at 5% in 2010.

In Latin America and the Caribbean, regional inflation remained at the same level as 2009, standing at 6.1%, notwithstanding the galloping inflation in Venezuela (29.2% in 2010).

In sub-Saharan Africa, in spite of the reduced growth rate of consumer prices in 2010, inflation remained high, i.e., 7.5% compared to 10.5% in 2009.

1.3. PUBLIC FINANCE

In the area of public finance, the structural budget deficit in advanced countries deteriorated to 6.4% in 2010 compared to 5.8% the preceding year. In contrast, good control was exercised in public finance management in sub-Saharan Africa – the budget deficit improved by 1.6% of GDP and pegged at 5.6% of nominal GDP in 2010, compared to 7.2% the previous year.

1.4. EXTERNAL SECTOR

Regarding the external sector, an improvement was recorded in the current account deficit in advanced countries and sub-Saharan Africa. Current external deficit stood at 0.2% in 2010 compared to 0.3% in 2009 for advanced countries and 2.2% in 2010 compared to 2.3% the previous year for sub-Saharan Africa. However, the reserve coverage ratio in months of imports declined from 5 months of imports of goods and services in 2009 to 4.5 months in 2010.

In the foreign exchange market, the European single currency, compared to the American dollar, significantly depreciated in December 2010 by about 9% with the EUR/USD exchange rate, standing at 1.394 in December 2010. Compared to the Yen, the European single currency was down 11%, the average price for the Euro in 2010 being Yen 116.2 compared to Yen 130.3 in 2009. Vis-a-vis the Pound sterling, Euro depreciation was estimated at 3%, in 2010, with the Euro exchange rate reducing from £0.889 in 2009 to £0.858 in 2010.

1.5. MAJOR COMMODITY PRICES

Commodity prices significantly increased in 2010 leading to improvement in the external position of ECOWAS Member States compared to 2009. The situation per commodity is presented below:

- **Aluminium**

Aluminium prices dwindled from $2,577.9/t in 2008 to $1,669.2/t in 2009 and rose again to the average price of $2,173/t in 2010. In December 2010, prices rose to $2,356.7/t. This price increase was due to growth in global demand, speculation and the slightly low price of the American dollar.

- **Wheat**

Average prices in the wheat market rose by 16% in 2010 from $223.7/t to $259/t, due to the 4.9% fall in production from 677 Mt the previous year to 644 Mt in 2010.

- **Cocoa**

There was a decrease in the average cocoa price, from $3,427/t at the end of December 2009 to $3,107.08/t as at 31 December 2010. This was due to weather conditions and the socio-political situation in Côte d'Ivoire, which supplies around 39% of world exports.

- **Coffee**

The price of Robusta coffee fell from $106.2/pound (0.4536kg) in 2008 to $77.1/pound in 2009 and to $73.7/pound during the first quarter of 2010. Subsequently, from the second quarter of 2010, prices improved to attain $78.4/pound. Since then, coffee prices kept rising, attaining $98.4/pound in December 2010.

- **Cotton**

Cotton prices, which fell in 2009 to 0.63/pound, recovered in 2010 and attained $1.68/pound in December 2010. This is linked to the fall in production, combined with growing demand in Asia, particularly China.

- ***Groundnut Oil***

On a yearly average, prices in the groundnut oil market attained $1,404/t in 2010 compared to $1,185/t in 2009, representing an increase of 19%.

- ***Palm oil***

Increase in the price of palm oil was estimated at 32% in 2010, with prices going from $683.2 /t to $900/t.

- ***Corn***

Corn prices recorded 12% growth in 2010 due to virtual stability in production at 810 Mt against 811 Mt the previous year, against the backdrop of a 3.3% rise in consumer needs.

- **Cashew nut**

Cashew nut prices improved and stood at CFA 496.4/kg in 2010 compared to CFA 453.5/kg in December 2009. This growth is attributed to the 20% decline in global production, linked to bad weather conditions in exporting countries and increasing demand.

- **Gold**

On 30 December 2010, the price of gold closed at $1405.50/ounce (28.35gm), representing an increase of 25% compared to the price of 1121.50/ounce on 4 January 2010. Increased demand for gold, particularly in China, was one of the factors responsible for the price rise.

- **Oil**

The price of oil fell from $97/barrel in 2008 to $61.8/barrel in 2009 before rising to $90.1/barrel in December 2010. This was due to the recovery in global economic activity and, to some extent, speculation in the oil futures market.

- ***Rice***

In the rice market, an increase of 17% in prices was recorded in 2010 in spite of the 2% rise in production from 440 Mt in 2009 to 449 Mt in 2010.

- ***Sugar***

The sugar market continued to grow by late December 2010, with an increase at a yearly average of 17%. According to the International Sugar Organisation (ISO), global production that year attained 168.95 Mt, against 160.45 Mt the previous year, representing a 5.3%.increase.

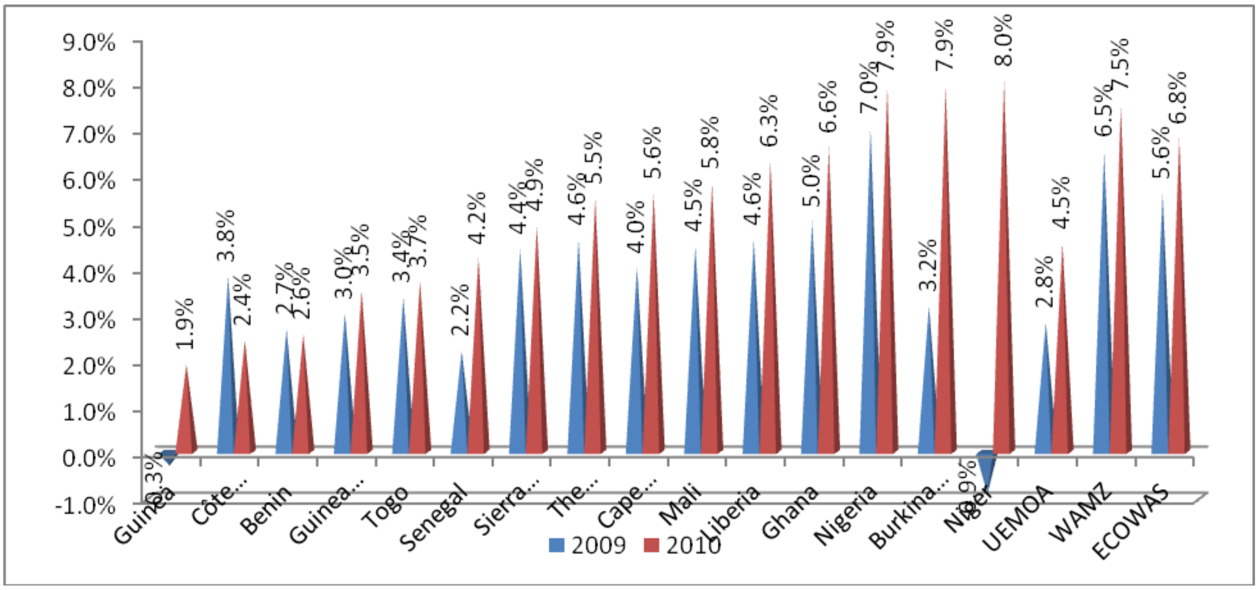
II. ANALYSIS OF THE ECOWAS ECONOMIC AND FINANCIAL SITUATION

In this section, an analysis of the economic and financial situation of ECOWAS was carried out through a review of the developments in the real sector and public finance as well as the external and monetary sectors.

2.1. TRENDS IN GROSS DOMESTIC PRODUCT (GDP)

The economic situation of ECOWAS in 2010 saw regional GDP grow by 6.8% compared to 5.6% the previous year, driven by the recovery of the export sector and strong budgetary policies in place for a decade. Economic growth was stronger in the West African Monetary Zone (WAMZ) than in the West African Economic and Momentary Union (UEMOA). Figure I presents changes in the real growth rate per country in 2009 and 2010. It shows the current disparities in economic growth between the countries and zones. Thus, for 2010, the growth rate varied between 1.9% in Guinea and 0.8% in Niger.

Figure 1: Real Growth in 2009 and 2010



2.1.1. Evolution of GDP within WAMZ

Within the WAMZ, economic activity grew at the rate of 7.5% in 2010 compared to 6.5% the previous year, driven by the largest economy (Nigeria) and due particularly to good weather conditions and suitable economic policies which led to sustained growth for the majority of Member States.

Thus, GDP increased by 5.5% in 2010 compared to 4.6% the previous year in the **Gambia,** impelled by the primary and secondary sectors. In **Ghana** the economy grew by 6.6% compared to 5% in 2009, due to the performance of the secondary and tertiary sectors. In **Guinea**, real GDP rose by 1.9% following a decline of 0.3% in 2009, due particularly to the mining sub-sector. In **Liberia**, good weather conditions led to an increase of 6.3% in economic activity in 2010 compared to 4.6% the previous year. In **Nigeria**, growth rate was 7.9% compared to 7% in 2009 due to the strong growth of the oil sub-sector. In **Sierra Leone**, performance of the agricultural, mining and services sub-sectors contributed to a growth rate of 4.9% in 2010 compared to 4.4% in 2009.

2.1.2. Evolution of GDP within UEMOA

In UEMOA, GDP grew by 4.4% in 2010 compared to 2.8% the previous year, due mainly to the good performance of the food producing sector, high level output by the mining sector and continued boom of the construction sector.

In **Benin**, economic activity slowed down compared to the preceding year. Growth rate was 2.6% against 2.7% in 2009, due to the under performance of the secondary sector, notwithstanding the performances of the secondary and tertiary sectors.

In **Burkina Faso**, economic growth stood at 7.9% compared to 3.2% in 2009, driven by all sectors and due particularly to the increased production of food and cash crops, minerals as well as cotton spinning.

In **Côte d'Ivoire**, the GDP growth rate slowed to 2.4% compared to 3.8% in 2009, as a result of difficulties in electric power supply in the first quarter, decline in the production of major export crops and minerals, as well as the political crisis at the end of the year.

In **Guinea Bissau**, real GDP growth rate stood at 3.5% against 3% in 2009, driven by the dynamism of all sectors of the economy and particularly the rise in cashew nut prices and construction activities.

In **Mali**, real GDP grew by 5.8% against 4.5% in 2009, mainly as a result of a good crop year occasioned by sufficient rainfall and State support to farmers through grants for agricultural inputs.

In **Niger**, real GDP rose to 8% compared to a decline of 0.9% in 2009, driven mainly by the primary sector which grew by 17.1% compared to a decline of 8.4% in 2009 and the secondary sector due to growth in mining.

In **Senegal**, the growth rate of real GDP was 4.2% compared to 2.2% in 2009. This is linked to the good performance of the secondary and tertiary sectors mainly as a result of recovery in the telecommunication, transport and financial services sectors.

In **Togo**, economic growth put real GDP at 3.7% in 2010 compared to 3.4% in 2009, driven by all sectors and linked to robust commercial and financial services and the standardisation of electricity supply which led to a rise in industrial production.

2.1.3. Evolution of GDP in Cape Verde

In **Cape Verde**, real GDP grew by 5.6%, driven essentially by the development of the tertiary sector particularly as a result of recovery in tourism and money transfers.

2.2. INFLATION

Economic activities within ECOWAS were carried out in an environment marked by increased inflationary pressures, pushing average annual inflation to 9.9% against 9.3% in 2009. This development is linked to increased inflation in the UEMOA zone (1.3% in 2010 compared to 1.1% in 2009) as well as the WAMZ (12.6% in 2010 against 11.8% in 2009). However, in 2010, inflation slowed down in Cape Verde to 3.1% compared to 5.8% the previous year. This rise in consumer prices is linked, in the majority of countries, to increases in the price of food, petroleum products and as a result, increased transport costs.

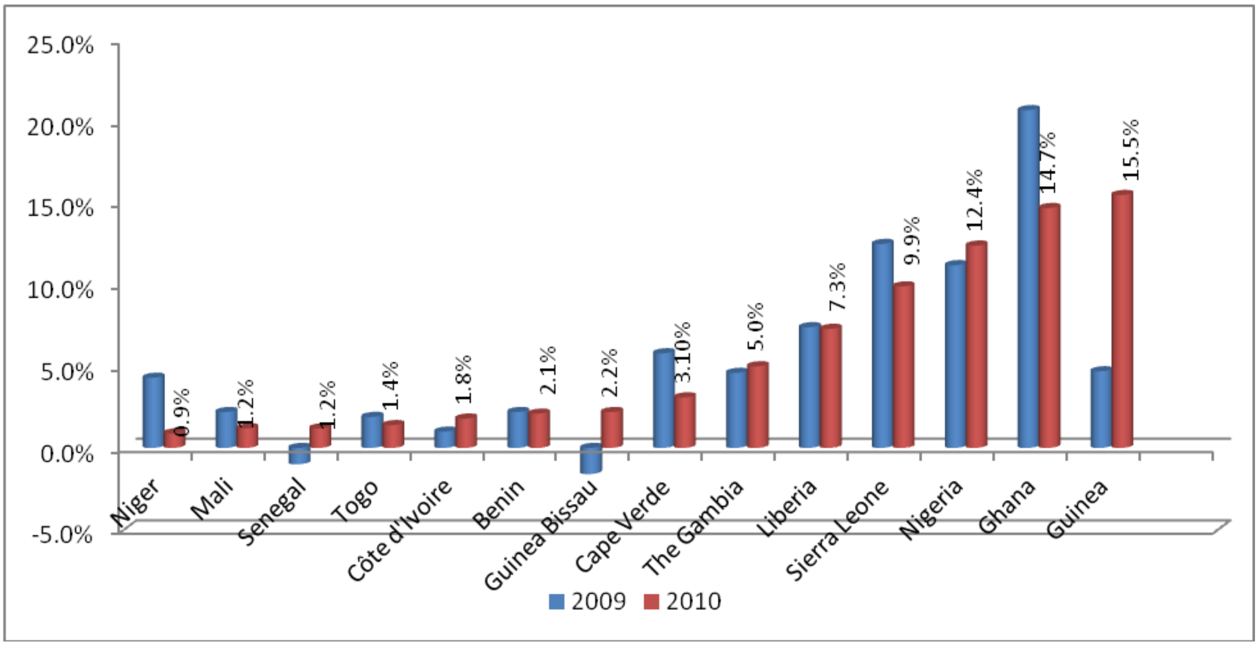
In WAMZ countries, average annual inflation stood at 5% in 2010 compared to 4.6% in 2009 in the Gambia, 14.7% against 20% in Ghana, 15.5% compared to 4.7% in Guinea, 7.3% compared to 7.4% in Liberia, 12.4% compared to 11.2% in Nigeria and 9.9% compared to 12.5% in Sierra Leone.

In UEMOA, average annual inflation was 2.1% in Benin, -0.7% in Burkina Faso, and 1.8% in Côte d'Ivoire, 2.2% in Guinea-Bissau, 1.2% in Mali, 0.9% in Niger, 1.2% in Senegal and 1.4% in Togo.

In **Cape Verde**, average annual inflation stood at 2.1% compared to 1% in 2009.

Figure 2 below shows average annual inflation by country in 2009 and 2010.

Figure 2: Inflation by Country in 2009 and 2010



2.3. PUBLIC FINANCE AND PUBLIC DEBT

Public finance within ECOWAS presented a deterioration of the overall balance on a commitment basis excluding grants, due to a higher increase in expenditure than in revenue. This situation is common to the two zones and Cape Verde.

2.3.1. Public Finance situation in WAMZ

Overall deficit on a commitment basis excluding grants in the WAMZ significantly deteriorated to 6.2% in 2010 against 3.8% a year earlier. This situation could be explained by the deterioration of public finance in all countries except Liberia.

The situation by country is as follows:

In The **Gambia**, there was an overall deficit on a commitment basis excluding grants of 2131 million Dalasi (7.4% of GDP) compared to 1727 million Dalasi (6.5% of GDP) in 2009. This is linked to the greater decline in fiscal revenue in percentage of GDP than in total expenditure and net lending. Domestic revenue amounted to 3917.5 million Dalasi (13.6% of GDP) in 2010 against the 3904.9 million Dalasi (14.5%) a year earlier. In contrast, total expenditure and net lending rose by 7.4% to 6049 million Dalasi (21% of GDP) against 5631.9 million Dalasi (21% of GDP) in 2009.

In **Ghana**, overall deficit on a commitment basis excluding grants was 3801.6 million Cedis (8.2% of GDP) against 2574.3 million Cedis (7% of GDP) a year earlier, linked to the greater increase in expenditure than in total revenue. Budget revenue rose by 1.2 percentage points to 16.7% of GDP in 2010 against 15.5% of GDP a year earlier, while total expenditure increased by 2 percentage points to 24.3% of GDP in 2010 against 22.2% the previous year. Including grants, the budget balance stood at 5.9% of GDP against 4.2% in 2009, due to the fall in grants which was 2.3% against 3.3% in 2009.

In **Guinea**, the overall deficit excluding grants on commitment basis stood at 11.7% against 8.3% a year earlier in relation to expenditure growth greater than revenue. In fact, revenue increased from 3,412.21 billion Guinean francs (15.4% of GDP) in 2009 to 4,432.070 billion Guinean francs (16.4% of GDP) in 2010. Regarding public expenditure, it increased from 5,240.24 billion Guinean francs (23.7% of GDP) in 2009 to 7,690.97 billion Guinean francs (28.5% of GDP) in 2010.

In **Liberia**, the budget surplus amounted to 6.8% of GDP in 2010 against 1.1% the previous year. This reflects increased budget revenue, which came to 32.4% compared to 25.1% in 2009, against the backdrop of a slight increase in public expenditure which stood at 27.8% of GDP in 2010 compared to 27% in 2009.

In **Nigeria**, overall budget deficit on a commitment basis excluding grants worsened in 2010 to stand at 5.8% against 3.3% the previous year, due to an increase in expenditure higher than that in revenue. Expenditure increased to 4 047,06 billion Naira (25.7% of GDP) in 2010 against 3289,1 billion naira (13.3% of GDP) the previous earlier while revenue were 2341,01 billion Naira (8.0% of GDP) in 2010 against 2479,25 billion Naira (10% of GDP) a year earlier.

In **Sierra Leone**, the budget deficit on a commitment basis excluding grants was 1066.1 billion Leone (14% of GDP), compared to 10.4% the previous year. Including grants, the deficit was 523.5 billion Leone (6.9% of GDP) in 2010 compared to 3% in 2009. This reflects a higher increase in expenditure than that in revenue. Budget revenue stood at 1007.6 billion Leone (13.2% of GDP) against 11.6% in 2009, while expenditure was 2073 billion Leone (27.3% of GDP).

2.3.2. Public Finance situation in UEMOA

In UEMOA, the execution of financial operations by Government gave rise to uneven results in the major budget indicators. Overall deficit excluding grants on a commitment basis fell from 6.2% of GDP in 2009 to 5.3% in 2010. In contrast, overall deficit worsened to stand at 2.9% in 2010 against 2.4% in 2009.

The improvement in overall deficit excluding grants is linked to increased tax revenue which amounted to 18% of GDP against 17.4% in 2009. The 10% rise in budget revenue was caused by a rise in tax revenue (8.7%) and non-tax revenue (24.6%). The increase in budget revenue could be explained by continued implementation of administrative measures aimed at widening the tax base and the beginning of implementation of the fiscal transition programme. Increased non-tax revenue are linked primarily to the collection of user licences by mobile telephone operators in Burkina Faso.

With respect to grants, a fall of 30.8% was recorded, amounting to 2.5% of GDP in 2010 against 3.8% the previous year.

Concerning total expenditure and net lending, this increased by 5% to 23.3% of GDP compared to 23.6% in 2009, mainly as a result of the increase in current expenditure (5.8%). Increased current expenditure in turn is due to the rise in the wage bill in relation to new recruitment and payment of allowances to public servants in several Member States. On the other hand, investment spending was down 0.5%, due to the fall in project grants.

The situation on a country-by-country basis is as follows:

In **Benin**, overall deficit excluding grants shrank to 3.1% of GDP against 7.4% in 2009. These changes could be explained by the increase in budget revenue and lower expenses. Including grants, the deficit improved the overall balance to 1.6% of GDP against 4.9% in 2009.

In **Burkina Faso**, overall budget deficit excluding grants improved to 10.1% of GDP in 2010 against 10.7% in 2009. The improved deficit balance is linked to increased budget revenue which rose from 13.7% of GDP in 2009 to 15.6% in 2010, and was higher than the increase in expenditure which was 24.4% of GDP in 2009 against 25.7% in 2010. The overall deficit including grants widened to stand at 5.6% of GDP in 2010 against 4.8% in 2009.

In **Côte d'Ivoire**, overall deficit excluding grants stood at 2.8% of GDP in 2010 against 2.2% in 2009. This change is linked to the lower increase in total revenue than in expenditure. Revenue grew by 5.8% amounting to 19.2% of GDP against 18.9% in 2009 while total expenditure and net lending increased by 9% to 22% of GDP against 21.1% in 2009. Overall budget balance including grants came to a deficit of 1.9 % of GDP against a surplus of 0.7% in 2009

In **Guinea Bissau**, overall budget balance excluding grants stood at 1.4% of GDP in 2010 compared to 13.3% in 2009. Improvement in overall deficit excluding grants is explained by increased tax revenue (24.4%) and control of public spending (-42.6%). Tax revenue increased from 6.7% of GDP in 2009 to 7.9 % in 2010 while total expenditure and net lending fell by 22.3% of GDP in 2009 to 12% in 2010. Including grants, overall budget balance is in surplus of 1.2% of GDP compared to a surplus of 2% in 2009. This negative trend in the overall balance is explained mainly by the 81.5% fall in grants, linked to the suspension of budgetary support, particularly by the European Union.

In **Mali**, overall deficit excluding grants improved to 5.5% compared to 6.9% a year earlier. This improvement is due to increased budget revenue impelled by tax revenue which increased by 11.2% to reach 17.4% of GDP against 17.1% in 2009. Total expenditure and net lending increased by 4.5% to 22.9% of GDP, against 24% in 2009. The overall budget balance including grants worsened resulting in a deficit of 2.6% of GDP against a deficit of 2.3% in 2009.

In **Niger**, financial operations carried out in 2010 showed an improvement in budget deficits due mainly to increased budget revenue arising from the widening of the tax base and improved efficiency of the tax administration and control of expenditure. As a result, overall deficit excluding grants shrank from 9.7% of GDP in 2009 to 6.9% in 2010 and overall deficit including grants came to 2.2% of GDP against 5.3% in 2009.

In **Senegal**, overall budget deficit excluding grants improved to 7.5% of GDP against 8.1% in 2009. Similarly, overall deficit including grants reduced from 5% in 2009 to 4.9% in 2010. These changes reflect an increase in fiscal revenue (+11%) which was higher than that in public spending (+7.1%). Budget revenue amounted to 19.6% of GDP in 2010 against 18.6% in 2009, linked to the improvement in tax and non-tax collections.

In **Togo**, overall budget deficit excluding grants improved to 3.6% of GDP against 4.9% a year earlier. Similarly, the overall balance including grants rose to a surplus of 0.3% in 2010 against a deficit of 0.6% in 2009. These developments are linked to the increase in total budget revenue (+17.6%) which was higher than the increase in total expenditure and net lending (+8.6%).

2.3.3. Public Finance situation in Cape Verde

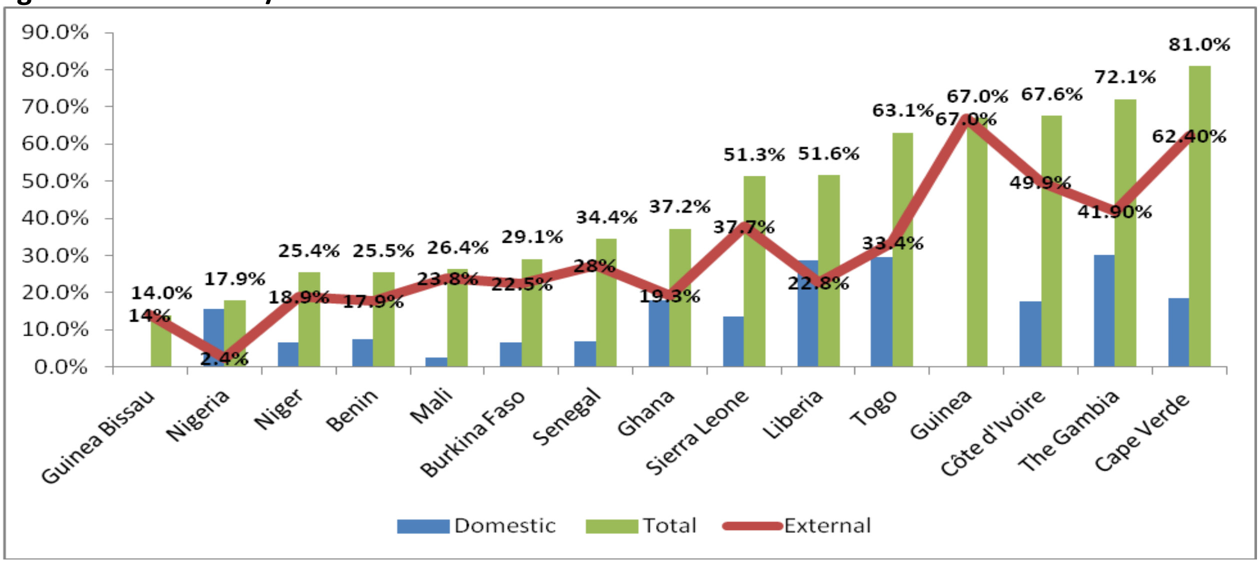
Implementation of financial transactions by Government led to the deterioration of overall deficit excluding grants which fell from 13.3% in 2009 to 19% in 2010[2]. This situation reflects an increase of 18% in total expenditure and net lending to 43.2% of GDP in 2010, against 39.3% the previous year due to a 41.2% rise in public investment. This situation would be worsened by the nominal stability of budget revenue, even if in terms of GDP, budget revenue fell to 24.2% in 2010 against 25.9% in 2009. With regard to grants, these increased by 14.9% in 2010.

2.3.4. Public Debt

The debt situation in ECOWAS differs from country to country.

From Figure 3, Nigeria was the least indebted ECOWAS country at the end of 2010, with an external debt to GDP ratio of 2.4%, followed by Guinea Bissau with 14%. In contrast, Guinea is the most heavily indebted in terms of external debt with a ratio of 67%, followed by Cape Verde with 62.4%. On total debt, Cape Verde and the Gambia are the most heavily indebted countries with ratios of 81% and 72.1% in 2010 respectively while Nigeria, Niger and Benin are the least indebted countries[3] with ratios less than 20%.

Figure 3: Public debt/ Nominal GDP Ratio in 2010



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[2] This deficit is primarily linked to Government's willingness to take advantage of low rates in the international market, to raise funds for priority public investment. Thus, drawings on foreign borrowing more than doubled to reach 16.6 billion Escudos (151 million Euros).

[3] Total public debt in Guinea Bissau was not taken into account in this analysis as data on its internal debt was unavailable.

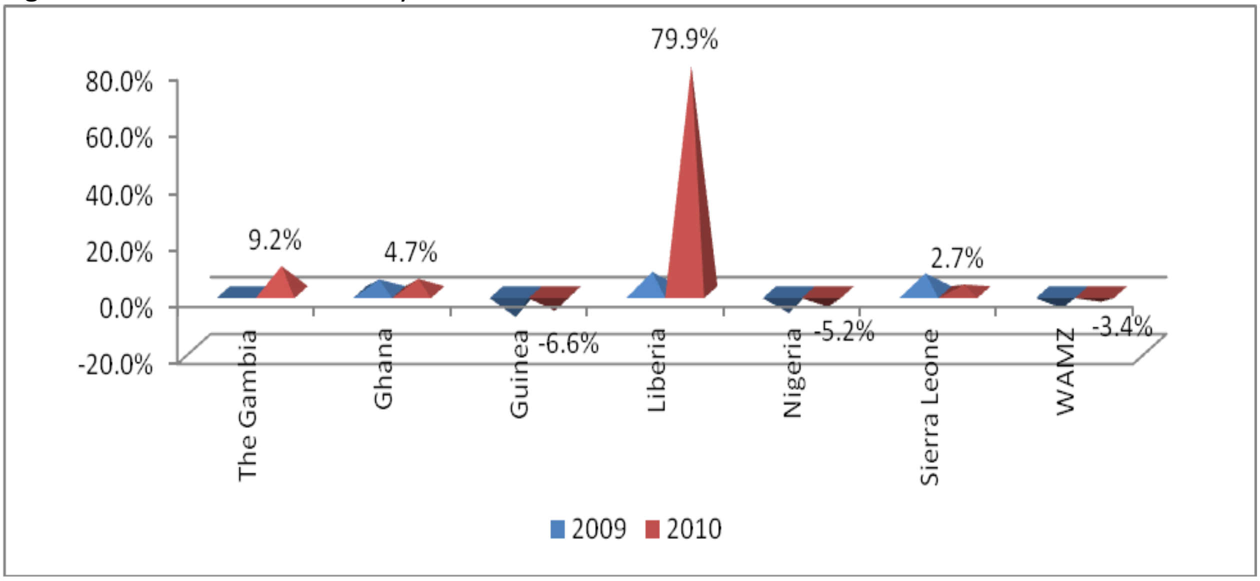
2.4. EXTERNAL SECTOR

In spite of the international environment marked by rising prices of commodities exported by ECOWAS Member States, the external position of some countries did not improve compared to 2009 when the global economy was reeling from the impact of the financial and economic crises. Thus, improvement in overall balance in the WAMZ contrasts with the deterioration in the balance for the UEMOA zone and Cape Verde.

2.4.1. Outlook for the External Sector of WAMZ

The balance of payments of the WAMZ, estimated from the balances of Member States and weighted by their respective nominal GDP, would show a deficit of 3.4% of the GDP in 2010 compared to a deficit balance of 5.6% a year earlier. For each country, the situation is very uneven in 2010, from a deficit of 6.6% in Guinea to a surplus of 79.9% of the GDP in Liberia.

Figure 4: Overall Balance of Payments in 2009 and 2010 in the WAMZ



The situation by country is as follows:

In the **Gambia**, preliminary estimates of the 2010 balance of payments indicate an overall surplus of 91.5 million USD (9.2% of GDP) against a deficit of USD 6.8 million (0.7% of GDP) in 2009. This change would be linked to improvement of the capital and financial account, the balance of which went from a deficit of 70.1 million USD (7.2% of GDP) to a surplus of 39.1 million USD (3.9% of GDP) in 2010. However, the impact of this change was mitigated by a fall in the current account surplus to 52.4 million USD (5.3% of GDP) compared to 63.3 million USD (6.5% of GDP) in 2009.

In **Ghana**, the overall balance of payments recorded a USD 1.5 billion surplus (4.7% of GDP) in 2010 compared to $1.1 billion (4.5% of GDP) in 2009. This change was due to a rise in the surplus of the capital account amounting to 4.2 billion dollars (12.6% of GDP) in 2010 against 3.1 billion dollars (9.8 % of GDP) the previous year. However, this improvement was offset by the deterioration of the current account, from a deficit of 1.6 billion dollars (6.2% of GDP) in 2009 to 2.6 billion (8.6% of GDP) in 2010.

The overall balance of payments in **Guinea** was negative at 187.3 million USD (4.2% of GDP) against a surplus of 60.2 million USD (1.3% of GDP) the previous year. This, to a greater extent, reflected the deterioration of the capital and financial account, rather than an improvement in the current account. The current account deficit was 379.39 million USD (8.4% of GDP) compared to a deficit of 403.45 million USD (8.7% of GDP) in 2009. Similarly, the capital and financial account recorded a surplus of 139.7 million USD (3.1% of GDP) in 2010 compared to a surplus of 429.1 million USD (9.1% of GDP) in 2009.

In **Liberia**, external transactions resulted in a surplus of USD 741 million (79.9% of GDP) in 2010 against 67.0 million (7.2% of GDP) in 2009. This trend was due to an increase in the surplus of the capital and financial account as a result of debt relief, which the country enjoyed in 2010, bringing external debt to 222.8 million USD in 2010 against 1663.6 million the previous year. The current account deteriorated in 2010, due particularly to the decline in the trade balance.

In **Nigeria**, the balance of payments deficit[4] stood at 5.2% of GDP in 2010 compared to a deficit of 7.4% in 2009, notwithstanding the surpluses in the current account and the capital and financial account. The current account surplus in 2010 reduced 7.83 billion USD (4.05% of GDP) against USD 21.9 billion (13.01% of GDP) in 2009, due to the deterioration in the balance of services and income. In addition, the surplus in the capital and financial account fell, standing at 12.64 billion USD (6.54% of GDP) in 2010 against 17.27 billion USD (10.26% of GDP) in 2009.

In **Sierra Leone**, external transactions resulted in a deficit of 57.96 million USD (2.7% of GDP) against a surplus of USD 143.93 million (6.64%) the previous year. This reflects the deterioration of the current account deficit and fall in the surplus of the capital and financial account. The current account deficit increased from USD 192.89 million (8.89% of GDP) in 2009 to USD 263.06 million (12.25%) in 2010. In addition, the surplus in the capital and financial account declined to 182.96 million USD (8.5% of GDP) in 2010 against 334.94 million USD (15.4 %) in 2009.

2.4.2. Outlook for the External Sector of UEMOA

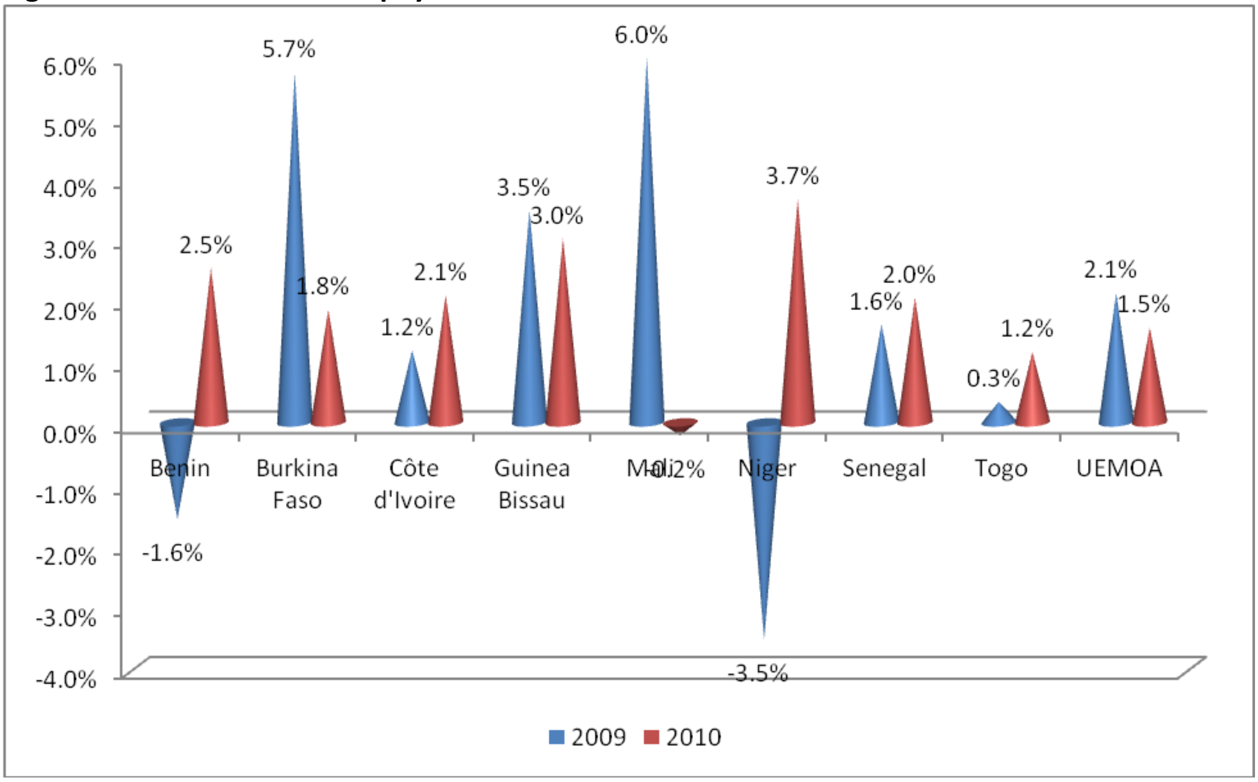
An analysis of UEMOA's 2010 external accounts shows a drop in the surplus of the overall balance of payments (as a percentage of GDP) in relation to 2009, resulting in the decline of current transactions, the effects of which were offset by an improvement in the capital and financial account.

The current account deficit widened to stand at 1375.8 billion CFA francs (4.1% of GDP) in 2010 against 1159.6 billion CFA francs (3.7%) in 2009, in line with the increase in imports, particularly petroleum products, food, equipment and intermediate goods. This deficit was financed from the surplus of the capital and financial account which amounted to 1973 billion CFA francs against 1805.8 billion CFA francs in 2009. The increase in the surplus is mainly due to the improvement of other net flows of private capital, in a context marked by the decline of foreign direct investment.

The Figure below presents a country-by-country situation. From the Figure, only Mali showed a deficit in 2010, while Benin and Niger showed the deficit in 2009.

[4] Errors and omissions would represent 15.5% in 2009 and 5.3% in 2010.

Figure 5: Overall balance of payments in 2009 and 2010 in UEMOA



The situation by country is as follows:

In **Benin**, balance of payments amounted to an 82.6 billion CFA francs surplus against a deficit of 48.9 billion CFA francs in 2009, reflecting a decline of the current account and increase in net capital inflows. The current account deficit was 272.4 billion CFA francs (8.4% of GDP) in 2010 against 306.4 billion CFA francs (9.9% of GDP) in 2009. This deficit was financed with the surplus of the capital and financial account, the surplus of which amounted to 355 billion CFA francs in 2010 against 260.2 billion CFA francs in 2009.

In **Burkina Faso**, the overall balance of payments showed a surplus of 83.9 billion CFA francs against 140.8 billion CFA francs in 2009, following deterioration of the capital and financial account, partly offset by a shrinking of the current account deficit. The surplus in capital and financial account amounted to 227.4 billion CFA francs, down by 43.9% from 2009, reflecting a simultaneous deterioration of capital transfers (-25.7%) and financial transactions (-52.9%). The current account deficit amounted to 4.3% of GDP in 2010 against 4.9% in 2009.

In **Côte d'Ivoire**, the balance-of-payments surplus rose to 203.9 billion CFA francs in 2010 against 128.3 billion CFA francs in 2009. This development can be explained by the fall in the capital and financial account deficit to 311.4 billion in 2010 compared to 618.1 billion in 2009, in conjunction with the rise in public securities issues and net private capital flows. These performances were mitigated by the fall in the current account surplus, the balance of which fell to 4.0% of GDP (520.5 billion CFA francs) against 4.6% of GDP in 2009.

In **Guinea Bissau**, the overall balance of payments recorded a 12.6 billion surplus CFA francs (1.2% of GDP) in 2010 against 13.7 billion CFA francs (2.0% of GDP) in 2009. This decline results from the widening of the current account deficit and the reduction in the capital and financial account surplus by 600 million CFA francs, to 40 billion CFA francs in 2010. Regarding the current account deficit, it amounted to 28.5 billion CFA francs (6.9% of GDP) in 2010 against 22.4 billion CFA francs (5.8% of GDP) in 2009, mostly due to a significant decrease in budget support.

In **Mali**, the overall balance of payments recorded a 20.5 billion CFA francs deficit against 293 billion CFA francs in 2009, on the back of deterioration in the current account, worsened by the reduction in the capital and financial account surplus. In 2010, the current account deficit worsened by 52 billion, from 7.3% of GDP in 2009 to 7.8% in 2010, due to the widening trade deficit primarily as a result of higher oil prices. Regarding the capital and financial account, the surplus dropped sharply (-45.6%), in line with the fall in net inflows of FDI, reflecting a return to normal after the 2009 privatization of SOTELMA.

In **Niger**, the balance of payments was positive with a surplus of 99.1 billion against a deficit of 87.9 billion in 2009, linked to the increase in the capital and financial account surplus (33.9%), despite the widening deficit in the current account. The current account deficit was estimated at 622.2 billion (22.5%% of GDP) in 2010 against 619.5 billion (24.7%) in 2009, mainly due to the deterioration of the balance of services. This deficit was financed by the surplus in the capital and financial account which improved by 182.6 billion to stand at 721.3 billion CFA francs, in line with the increased flows of foreign direct investment especially for mining and oil projects.

In **Senegal**, the overall balance of external transactions was in excess of 129.4 billion against 96.4 billion in 2009, due to simultaneous improvements in the balances of the current account and the capital and financial account. The current account deficit amounted to 374.3 billion (5.9% of GDP) in 2010 against 403.0 billion (6.7% of GDP) in 2009, following an improvement in all of its components. With regard to the capital and financial account surplus, it would increase from 496.8 billion in 2009 to 503.7 billion in 2010, due primarily to the increased mobilisation of funds in form of capital grants and drawings on government loans.

In **Togo,** external transactions resulted in a surplus of 18 billion CFA francs in 2010 against 5 billion CFA francs in 2009, following an improvement in the capital and financial account balance, despite deterioration of the current account. The current account deficit widened by 11.4 billion CFA francs standing at 94.8 billion (6.1% of GDP) in 2010 compared to 5.6% of GDP in 2009, due to the deterioration in the balance of goods, services and income, offset by the improvement in current transfers. The surplus in the capital and financial account was estimated at 112.4 billion CFA francs in 2010 against 85.9 billion CFA francs the previous year, largely because of increases in net flows of direct investment and portfolio.

2.4.3. Outlook for the External Sector of Cape Verde

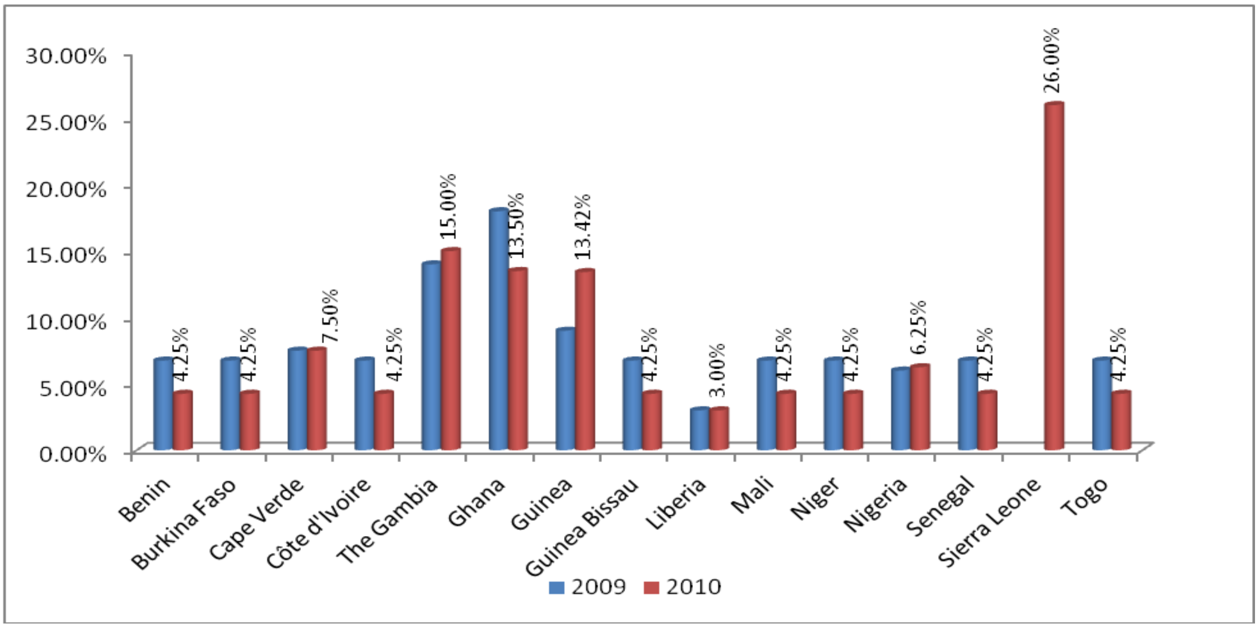
In 2010, external transactions in Cape Verde were characterised by an improvement in the overall balance of payments, amounting to a surplus of 2185.1 million Escudos (1.8% of GDP) compared to a deficit of 1308.5 million (1.1%) in 2009. This trend was as a result of improved balances of current transactions and capital and financial transactions. The current account deficit amounted to 16,242.5 million Cape Verde Escudo (CVE) (13.1% of GDP) in 2010 against 19,269.6 million CVE (16.7% of GDP) the previous year, while the capital and financial account surplus amounted to 22,718.4 CVE (18.3% of GDP) in 2010 against 20,080.9 million CVE (17.4 % of GDP) a year earlier.

2.5. MONETARY SECTOR

The trend of monetary policy within ECOWAS was not uniform during 2010. Two out of eight Central Banks relaxed their monetary policy (BCEAO and *Bank of Ghana*) while three others tightened their monetary policies (Central *Bank of the Gambia*, Central Bank of Guinea and Central

Bank of Nigeria). In Cape Verde and Liberia, *Banco de Cabo Verde*[5] and *Central Bank of Liberia* left their prime lending rates unchanged. In Sierra Leone, key interest rates at 26% were newly introduced during 2010, representing the highest rates in the Community.

Figure 6: Principal Key interest rates of ECOWAS currency-issuing institutes



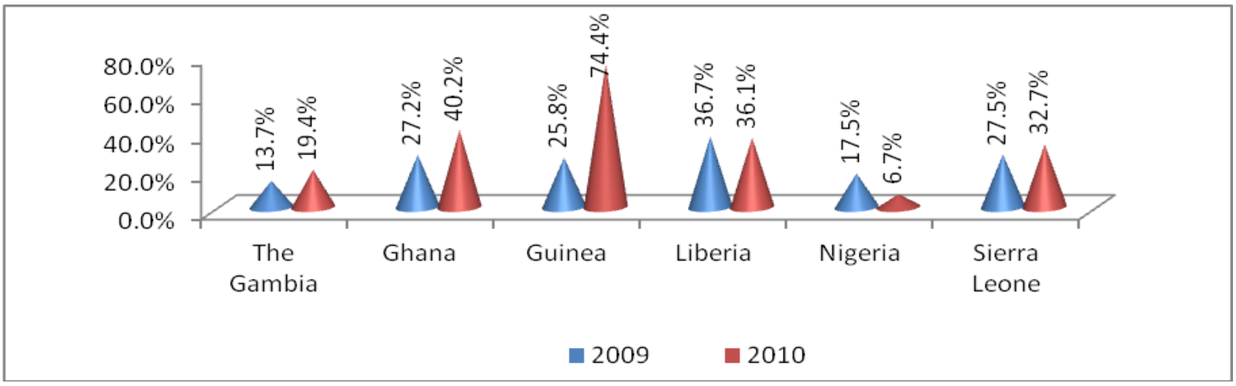
Source: Data from Central Banks

2.5.1. Monetary situation within WAMZ

Against the backdrop of a decline of 12.5% in net external assets, money supply in WAMZ increased by 9.1% in 2010 compared to 4.5% the previous year, driven by net debts of governments.

Figure 7 presents the evolution of money supply in the different countries of the WAMZ. It emerges that Guinea had the highest rate (74.4%) while Nigeria had the lowest (6.7%).

Figure 7: Outlook for money supply in 2009 and 2010



[5] However, the BCV lowered its main intervention rate by a percentage point to 4.25% in 2010.

In **Ghana**, money supply (M2+) increased by 34.3% in 2010 to stand at 13 775 million Cedis compared to 10 254 million Cedis in 2009, driven by the increase of 45.6% in net external assets and 26% in domestic credit.

In **Guinea,** the monetary situation was characterised by a 74.4% rise in money supply to stand at 10 367.93 billion Guinean Francs. This change, explained mainly by the 97.6% rise in net government debts compared to 2009, is mitigated by a decline of 29.5% in net external credit.

Liberia recorded an increase of 36.1% to stand at 31103.9 million Liberian dollars in 2010, due to a 150.5% increase in net external assets, from -46832.1 million in 2009 to 23629.5 million in 2010. However, the impact of this increase was mitigated by the drop of 89.3% in domestic credit.

In **Nigeria**, money supply increased by 6.7% to stand at 11 488.72 billion Naira in 2010, under the influence of an increase of 6.3% in net external credit, against the background of a decline of 17% in net external assets to 6303.63 billion Naira in 2010.

In **Sierra Leone**, there was a 29.7% rise in money supply to 1 048 056 million Leones, impelled by the increase in net external assets (6.7%) and domestic credit (47.8%).

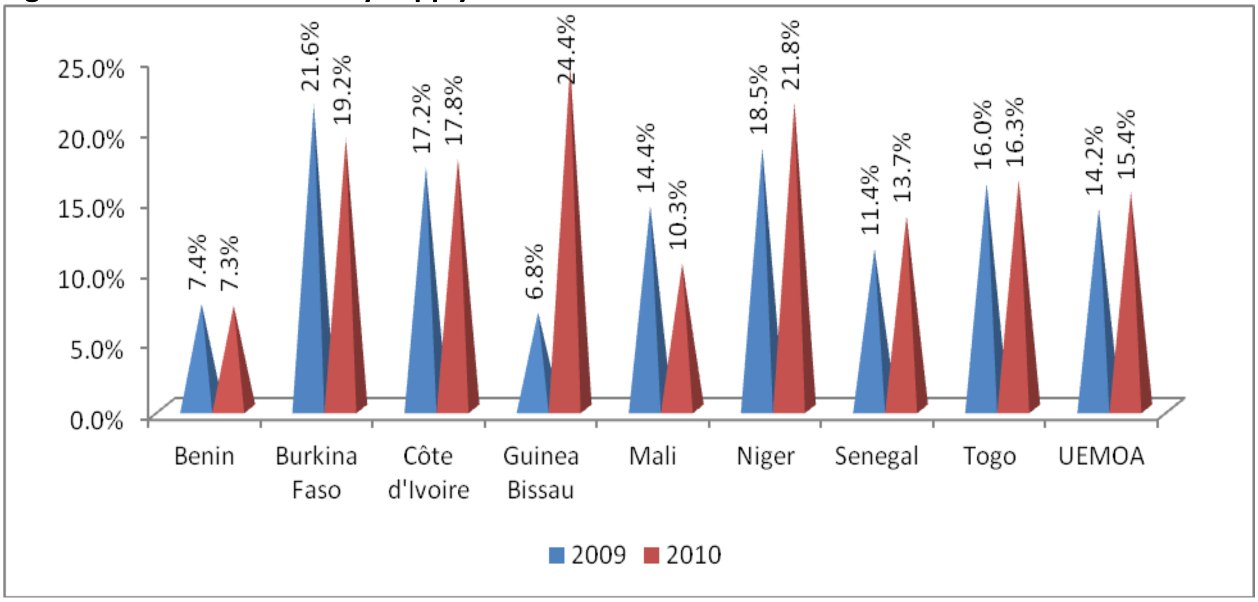
2.5.2. Monetary situation within UEMOA

In 2010, the BCEAO Monetary Policy Committee (MPC) decided not to change its key interest rates. Thus, the minimum bid rate for open market operations and the marginal lending facility remained set respectively at 3.25% and 4.25%. The MPC also decided to harmonise the cash reserve requirements for all member States at 7% since 16 December 2010.

In that context, money supply in the Union increased by 15.4% to 12, 293.4 billion on 31 December 2010, as seen in the increase of 16.7% in bank deposits and 13.7% in credit circulation. The increase in money supply is explained by the improved net external positions of the monetary institutions, increased net debts on governments, and growth in credit to the private sector.

Figure 8 shows the uneven changes in money supply within the UEMOA zone, with the lowest value of 7.3% in Benin and the highest value of 24.4% in Guinea Bissau.

Figure 8: Outlook for money supply within UEMOA



The status by country is as follows:

Benin recorded an increase in net external assets and a decline in domestic credit. Money supply increased by 7.3% and attained 1 276.1 billion at the end of December 2010.

In **Burkina Faso**, money supply increased by 19.2%, and attained 1 319.5 billion, in relation to the rise in net external assets (+14.9%), and domestic credit (+22.5%).

Money supply in **Côte d'Ivoire** increased by 17.8% and stood at 4136.4 billion CFA francs at the end of December 2010, in relation to the increase in net external assets and domestic credit.

In **Guinea Bissau**, there was a rise in money supply by 24.4% up to 118.5 billion CFA francs, in relation with an improvement in net external assets and increase in domestic credit.

The monetary situation in **Mali** was characterised by an increase of 10.3% in money supply to attain 1293.7 billion CFA francs, driven by domestic credit and offset by the decline in net external assets.

Niger recorded an increase in net external assets and domestic credit which led to the growth of money supply by 21.7% and stood at 576 billion CFA francs in 2010.

Money supply in **Senegal** increased by 13.7% and stood at 2540.8 billion CFA francs in 2010, resulting in the improvement of net external assets and a rise in domestic credit.

In **Togo**, money supply grew by 16.3% to reach 717 billion CFA francs at the end of 2010, as a result of growth in net external assets and domestic credit.

2.5.3. Monetary situation in Cape Verde

To deal with excess liquidity in the banking system, several open market operations were carried out by the Central Bank during 2010. However, the principal base rate and cash reserve requirement remained unchanged at 4.25% and 16% respectively.

Against this background, money supply increased by 5.3% to stand at 115 929.5 million CVE compared to 110 044.8 million CVE the previous year. This increase, reflected both in currency in circulation and bank deposits, could be explained by the 5.2% growth in net external assets to attain 29 851.7 million CVE in 2010, accompanied by an increase of 6.1% in domestic credit to stand at 98589.1 million CVE in 2010.

III. PERFORMANCE IN TERMS OF MACROECONOMIC CONVERGENCE

This section examines on the one hand, the general status of convergence and, on the other hand, the status of convergence in each Member State in relation to ECOWAS convergence criteria. Recall that under Article 1 of the Decision A/DEC.7/12/99 on the adoption of macroeconomic convergence criteria in the framework of the ECOWAS Monetary Cooperation, two categories of criteria were adopted: primary criteria and secondary criteria.

The primary criteria, which are four (4), are as follows:

1. Ratio of budget deficit excluding grants (commitment basis) relative to gross domestic product (GDP): less than or equal to 4%;
2. Inflation rate end of period: less than or equal to 5%;
3. Budget deficit financing by the Central Bank: less than or equal to 10% of tax revenue for the previous year;
4. Gross reserves: greater than or equal to six (6) months of imports.

With regard to secondary criteria, they are six (6), namely:

1. Prohibition of Arrears: Non-accumulation of new arrears and liquidation of all existing arrears
2. Tax revenue / GDP ratio: greater than or equal to 20%;
3. Wage bill/tax revenue ratio: less than or equal to 35%;
4. Ratio of public investment financed by internal resources to tax revenue: greater than or equal to 20%;
5. Stability of real exchange rate: maintained by each country. However, the exact rate will be determined as part of the implementation of the ECOWAS exchange rate mechanism;
6. Real interest rate: the real interest rate must be positive.

3.1. ANALYSIS OF THE OVERALL SITUATION IN TERMS OF MACROECONOMIC CONVERGENCE

Macroeconomic convergence of ECOWAS economies over the past 6 years has been erratic. The average number of countries which complied with the different criteria varied during the 2005 to 2010 period. Generally, the status of macroeconomic convergence deteriorated in 2010 in comparison to the average over the five preceding years (2005-2009). Similarly, compared with 2009, convergence which in 2010 improved by reason of the number of countries meeting their targets, deteriorated in relation to criteria on end-of-period inflation, central bank financing of the budget deficit, wage bill/tax revenue ratio, and positive rate of real interest and stability of the effective exchange rate. With respect to the other criteria, the number countries attaining the targets remains unchanged.

3.1.1. Number of countries that met the criteria

The number of countries satisfying each convergence criterion since 2005 is presented in Table I below.

It would be noted that in 2010, five (5) countries (Benin, Côte d'Ivoire, Guinea Bissau, Liberia and Togo) satisfied the criterion on **budget deficit on commitment basis, excluding grants in percentage GDP** compared with an average of 6 countries for the 2005 – 2009 period.

Table I. Number of countries that met each criterion from 2005 - 2010

	Target	2005	2006	2007	2008	2009	2010	2005-2009 Average
Primary criteria								
1. Budget deficit	≤ 4% GDP	4	6	8	8	4	5	6
2. Inflation (End of period)	≤ 5%	9	9	7	1	10	9	7
3. Deficit financing	≤ 10% TR n-1	15	13	15	13	13	12	14
4. External reserves	≥6 month	1	1	1	1	10	10	3
Secondary criteria								
1- Payment arrears		-	-	-	-	-	-	-
2-Tax revenue (TR)	≥ 20% GDP	2	2	2	2	2	2	2
3-Wage bill	≤ 35% TR	7	8	9	7	6	4	7
4 – Domestically financed investment/ TR	≥20% TR	6	5	6	7	8	8	6
9-Real interest rate	> 0	7	6	6	0	11	6	6
10-Stability in effective exchange rate level	± 5%	11	12	13	6	12	10	11

Source: ECOWAS Commission

Regarding **end-of-period inflation,** 9 countries (UEMOA Member States and Cape Verde) complied with this criterion in 2010 compared to 10 countries the previous year (UEMOA countries, Cape Verde and The Gambia) and 7 countries on the average over the five previous years.

With regard **to budget deficit financing by the central bank in relation to percentage of previous year's tax revenue,** twelve countries met this criterion (all ECOWAS countries excluding The Gambia, Guinea and Sierra Leone) against thirteen (13) Member States (all Member States excluding Guinea and Sierra Leone) in the previous year and an average of fourteen (14) countries during the preceding five years.

In 2010, ten (10) countries (UEMOA Member States, Gambia and Nigeria) met the criterion on **gross foreign reserves in months of import**, just as in the previous year. The average performance for the last five years has been low because usually only Nigeria had been satisfying this criterion prior to 2009.

The number of countries satisfying the **tax revenue/nominal GDP ratio** criterion remained two in 2010 (Cape Verde and Liberia in 2010, and Cape Verde and Ghana during the period 2005-2009).

Concerning the **wage bill/tax revenue** ratio, the performance deteriorated in 2010. Four countries (Mali, Niger, Senegal and Togo) met the criterion as against six (6) countries in 2009 (Gambia, Guinea, Mali, Niger, Nigeria and Senegal) and an average of 7 countries between 2005 and 2009.

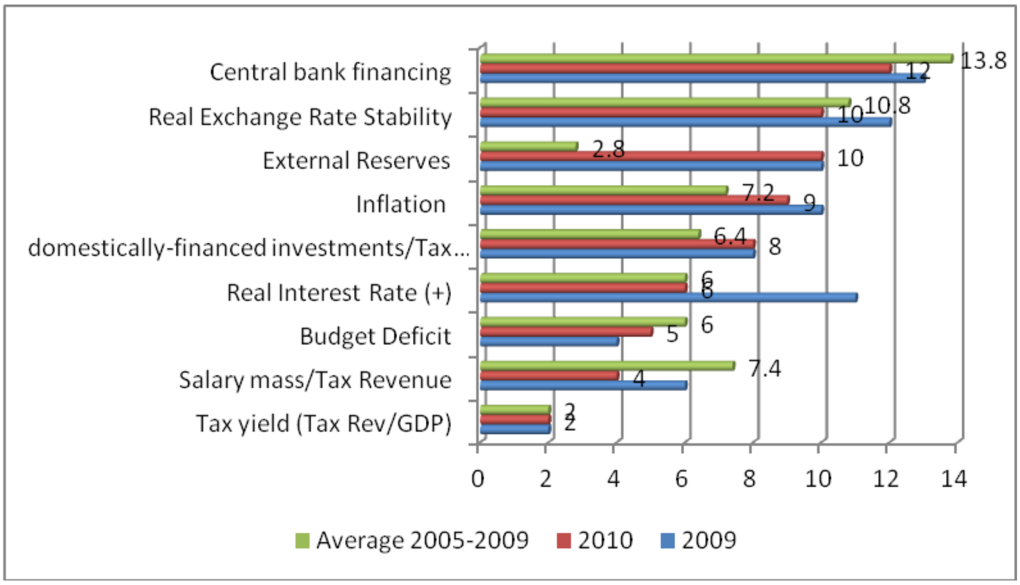
On the criterion of **domestically-financed public investment/GDP ratio**, eight (8) countries attained the target in 2010, just as in 2009. Benin, Burkina Faso, Guinea, Mali, Niger, Nigeria and Senegal met the criterion in 2010 and 2009, while Cape Verde achieved it in 2009 and Liberia in 2010.

Six (6) Member States (Burkina Faso, Cape Verde, Gambia, Mali, Niger and Togo) attained the **real interest rate** criterion in 2010 compared with eleven (11) countries the previous year (all Member States except, Ghana, Liberia, Nigeria and Sierra Leone).

With regard to the criterion on **effective exchange rate stability,** ten (10) Member States (all countries except Côte d'Ivoire, Ghana, Guinea, Nigeria and Togo) met the target in 2010 compared with twelve (12) countries the previous year (all countries with the exception of Gambia, Guinea and Nigeria).

These developments are presented in Figure 9 below.

Figure 9: Number of countries that respected the convergence criteria



All in all, the number of countries that attained the targets in 2010 in relation to the average performance during the last five years dropped in respect of the criteria of budget deficit, budget deficit financing by the central bank, wage bill/tax revenue ratio, and effective exchange rate stability. However, significant improvements were observed in other criteria such as inflation, gross exchange reserves in months of imports, domestically financed public investment/GDP ratio. The positive effective interest rate and tax burden rate criteria maintained the status quo.

Similarly, the macroeconomic convergence situation of ECOWAS Member States deteriorated considerably in 2010. Indeed, there was deterioration in performance on five indicators (monetary financing of deficit, effective exchange rate stability, positive real interest rate, wage bills to tax revenue ratio) in comparison with the improvement on the budget deficit criterion; performance on the other indicators remaining unchanged.

3.1.2. Number of criteria attained per country

A comparative study of the 2010/2009 performance of the convergence criteria of each member country indicates that there was indeed a fall-off in convergence. It should be pointed out that in seven (7) countries (Cape Verde, Côte d'Ivoire, Gambia, Guinea, Mali, Nigeria and Senegal), the number of convergence criteria attained in 2010 was lower than the 2009 figure. Togo was the only country that improved its performance by increasing the number of convergence criteria attained. The situation remained the same in the other countries, as indicated in Table 2 below:

Table 2: Number of convergence criteria attained per country

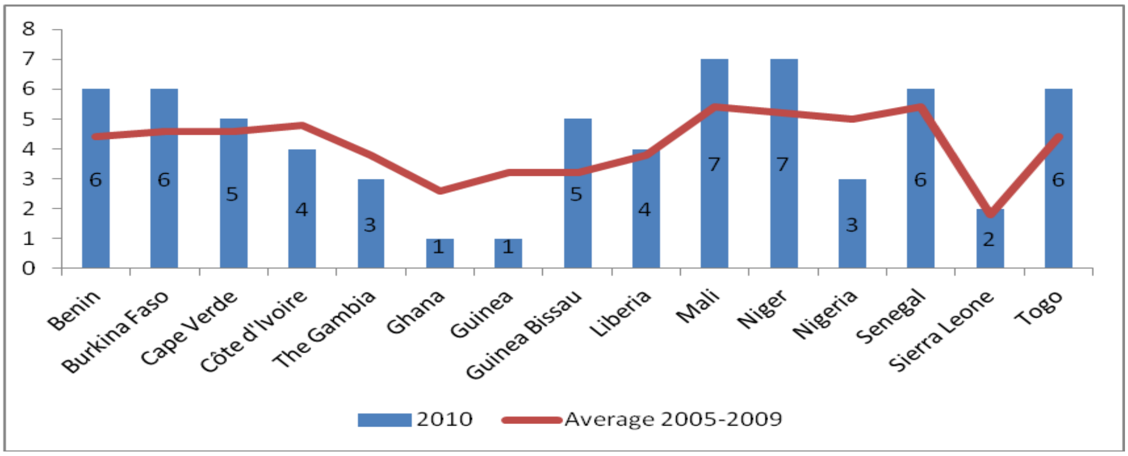
	2005	2006	2007	2008	2009	2010	Average 2005-2009
Benin	3	3	6	4	5	5	4.2
Burkina Faso	5	5	5	2	5	5	4.4
Cape Verde	5	4	5	3	6	5	4.6
Côte d'Ivoire	5	5	5	3	5	3	4.6
Gambia	4	6	3	2	4	3	3.8
Ghana	2	3	4	3	1	1	2.6
Guinea	3	2	4	3	4	1	3.2
Guinea Bissau	4	4	2	1	4	4	3.0
Liberia	3	4	4	4	4	4	3.8
Mali	6	5	6	2	7	6	5.2
Niger	5	6	5	3	6	6	5.0
Nigeria	5	4	6	5	5	3	5.0
Senegal	6	5	4	5	6	5	5.2
Sierra Leone	2	1	2	2	2	2	1.8
Togo	3	5	6	3	4	5	4.2

Source: ECOWAS Commission

Compared with the average performance in the past five years, the situation in 2010 produced three categories of countries. The first category includes countries with improved performance in 2010 against the 2005-2009 average, namely: Benin, Burkina Faso, Cape Verde, Guinea Bissau, Mali, Niger, Senegal and Togo. The second comprised two countries (Liberia and Sierra Leone) where no significant improvement was made in the number of criteria met in relation to the average performance in the last five years. The third and last category comprised Côte d'Ivoire, Gambia, Ghana, Guinea and Nigeria where there was a fall in the number of criteria met.

This situation can also be depicted in a Figure as reflected below. The red line indicates the average performance of countries in the past five years. Thus, the countries where the convergence performance deteriorated are the ones with the number of convergence criteria below the red line.

Figure 10: Number of convergence criteria attained per country



3.2. ANALYSIS OF THE STATUS OF CONVERGENCE BY CATEGORY OF CRITERION

This sub-section of the report is aimed at analysing the performance of countries on the ten (10) convergence criteria. The corresponding box is marked in green colour when the criterion is attained.

3.2.1. Primary criteria

3.2.1.1. Budget deficit excluding grants (commitment basis) ≤ 4% nominal GDP

*In 2010, five of the fifteen Member Stat*es attai*ned this crite*rion against an average of six (6) countries during the 2005-2009 period. They are: Benin (3.1%), Côte d'Ivoire (2.3%), Guinea Bissau (1.4%), Liberia (0.0%) and Togo (3.6%).

Table 3: Budget deficit GDP ratio excluding grants (commitment basis) ≤ 4%

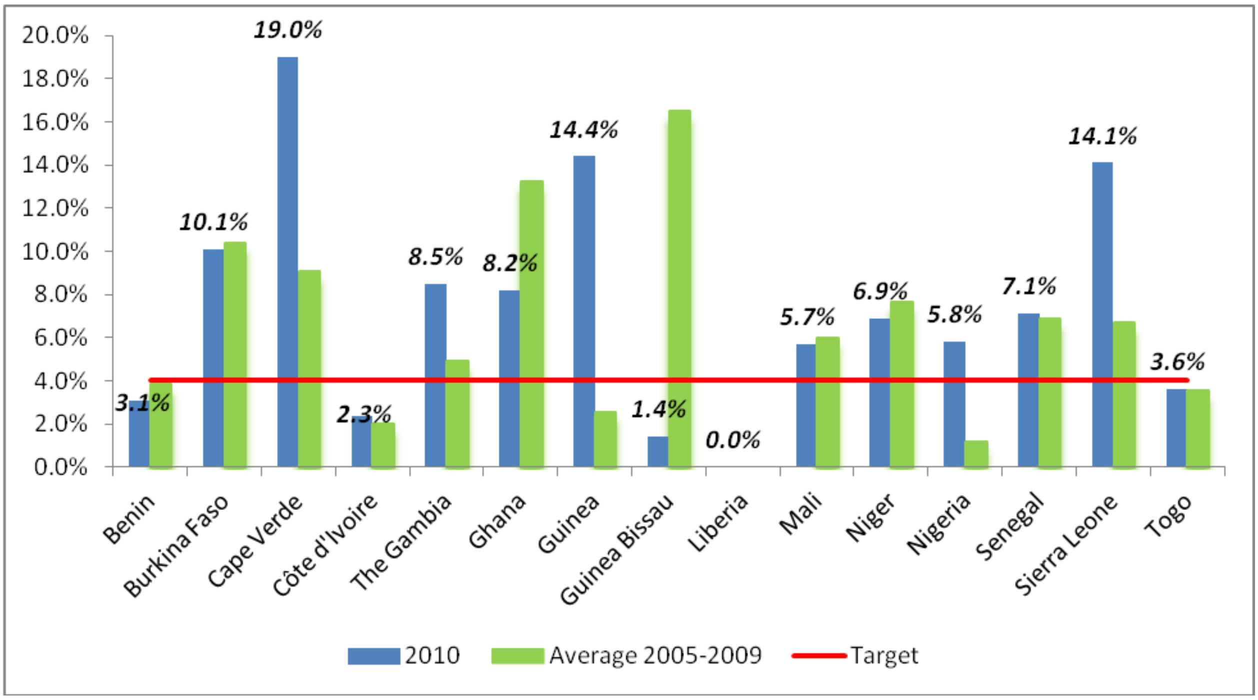
Countries	2005	2006	2007	2008	2009	2010	2005-2009 Average
Benin	4.6%	2.5%	1.4%	3.4%	7.4%	3.1%	3.9%
Burkina Faso	9.1%	11.3%	9.3%	11.5%	10.7%	10.1%	10.4%
Cape Verde	11.4%	10.4%	3.6%	6.5%	13.3%	19.0%	9.0%
Côte d'Ivoire	2.7%	1.5%	1.4%	2.2%	2.2%	2.3%	2.0%
Gambia	8.4%	2.7%	1.1%	3.8%	8.6%	8.5%	4.9%
Ghana	6.9%	12.9%	14.5%	19.5%	12.3%	8.2%	13.2%
Guinea	1.6%	2.0%	0.9%	1.5%	6.8%	14.4%	2.6%
Guinea Bissau	24.2%	19.9%	13.7%	11.3%	13.3%	1.4%	16.5%
Liberia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mali	7.3%	7.6%	7.9%	5.6%	1.6%	5.7%	6.0%
Niger	9.6%	6.8%	6.7%	5.4%	9.7%	6.9%	7.6%
Nigeria	1.3%	0.5%	0.6%	0.2%	3.3%	5.8%	1.2%
Senegal	4.7%	7.3%	7.1%	7.2%	7.9%	7.1%	6.8%
Sierra Leone	9.5%	8.5%	5.0%	0.0%	10.4%	14.1%	6.7%
Togo	4.1%	4.2%	2.3%	2.3%	4.9%	3.6%	3.6%
Number of countries attaining the criterion	***4***	***5***	***7***	***7***	***5***	***4***	***5***

Source: ECOWAS Commission, WAMA and Member States

Figure 11 below compares the 2010 budget deficit performance of Member States with the average performance in the previous five years. The red line indicates the official target fixed. In that regard, a country with a value above the line did not meet that particular criterion and the country whose value falls below the line attained the target.

An analysis of the Figure reveals that the situation in some countries declined in 2010 against the average (Cape Verde, Côte d'Ivoire, Gambia, Guinea, Nigeria, Senegal and Sierra Leone), while the performance improved in other countries (Burkina Faso, Ghana, Guinea Bissau, Mali and Niger). The Figure also reveals that some countries such as Cape Verde (19.0%), Guinea (14.4%), Sierra Leone (14.4%) and Burkina Faso (10.1%) presented a double-digit deficit in 2010, namely: Cape Verde (19,0%), Guinea (14,4%), Sierra Leone (14,4%) and Burkina Faso (10,1%).

Figure 11: 2010 Budget Deficits compared to the 2005-2009 average



3.2.1.2. End- of- period Inflation ≤ 5.0%

With regard to end-o-period inflation, nine (9) countries (UEMOA countries and Cape Verde) attained the criterion in 2010 against ten (10) in the previous year, as indicated in the table below.

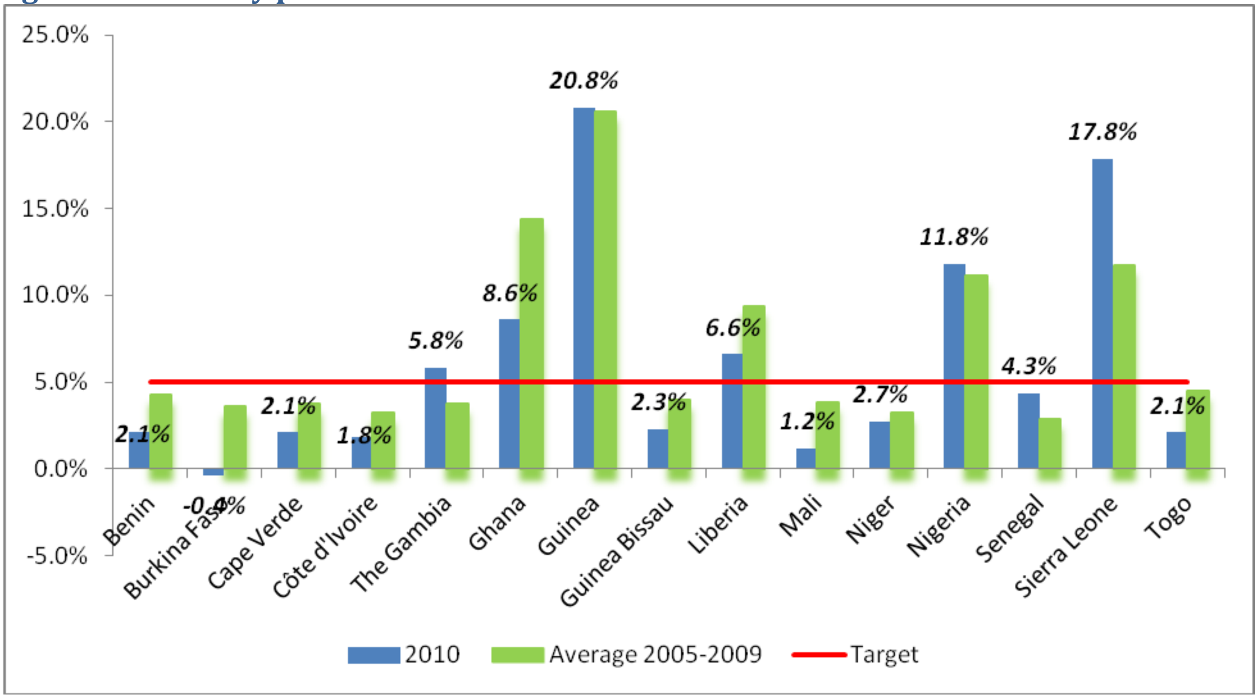
Table 4: End-of-period Inflation (≤ 5%)

Countries	2005	2006	2007	2008	2009	2010	2005-2009
Benin	3.8%	5.2%	0.3%	9.9%	2.2%	2.1%	4.3%
Burkina Faso	4.5%	1.5%	2.3%	9.9%	-0.3%	-0.4%	3.6%
Cape Verde	1.7%	4.7%	4.4%	6.8%	1.0%	2.1%	3.7%
Côte d'Ivoire	2.6%	2.0%	1.5%	8.9%	1.0%	1.8%	3.2%
Gambia	1.8%	1.4%	6.0%	6.8%	2.7%	5.8%	3.7%
Ghana	13.9%	10.9%	12.8%	18.1%	16.0%	8.6%	14.3%
Guinea	29.7%	39.1%	12.8%	13.5%	7.9%	20.8%	20.6%
Guinea Bissau	0.3%	3.2%	9.3%	8.7%	-1.6%	2.3%	4.0%
Liberia	7.0%	8.9%	11.7%	9.4%	9.7%	6.6%	9.3%
Mali	3.4%	3.6%	2.2%	7.8%	2.2%	1.2%	3.8%
Niger	4.2%	0.3%	4.7%	10.2%	-3.1%	2.7%	3.3%
Nigeria	11.6%	8.5%	6.6%	15.1%	14.0%	11.8%	11.2%
Senegal	1.4%	4.0%	6.1%	5.0%	-2.2%	4.3%	2.9%
Sierra Leone	13.1%	7.3%	13.8%	12.3%	12.2%	17.8%	11.7%
Togo	5.5%	1.5%	3.4%	10.2%	1.9%	2.1%	4.5%
Number of countries attaining the criterion	*9*	*9*	*7*	*1*	*10*	*9*	*7*

Source : ECOWAS Commission, WAMA and Member States

Figure 12 presents the inflation situation in 2010 and the 2005-2009 average. The red line indicates the maximum limit. Any country with an inflation level above the line did not satisfy the criterion during the period indicated. An analysis of the Figure therefore shows that, on average and also during 2010, only the UEMOA countries and Cape Verde met this criterion. These countries generally have an inflation rate lower than other ECOWAS countries, in line with their exchange rate regime.

Figure 12: Country performance under the inflation criterion



3.2.1.3. Budget deficit financing by the Central bank in terms of the previous year's tax revenue *≤ 10%*

Following the decision of the Council of Ministers in 2002, the BCEAO has stopped granting monetary concession to Member States, an indication that all UEMOA member countries met this criterion. Also, some Central banks of other ECOWAS member countries do not finance the budget deficit. In that regard, in 2010, three countries (Ghana, Guinea and Sierra Leone) narrowly missed the target.

Table 5: Budget deficit financing by the central bank in relation to percentage of previous year's tax revenue *≤ 10%*

Countries	2005	2006	2007	2008	2009	2010	2005-2009 Average
Benin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B. Faso	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cape Verde	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Côte d'Ivoire	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gambia	0.0%	0.0%	0.0%	35.9%	0.0%	27.3%	7.2%
Ghana	0.0%	0.0%	0.0%	17.3%	0.0%	-12.7%	3.5%
Guinea	-8.8%	54.0%	0.0%	5.8%	40.1%	82.9%	18.2%
Guinea Bissau	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liberia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mali	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Niger	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nigeria	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Senegal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sierra Leone	0.0%	13.3%	0.8%	0.3%	21.2%	25.7%	7.1%
Togo	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Number of countries satisfying the criterion	***15***	***13***	***15***	***13***	***13***	***12***	***14***

Source: ECOWAS Commission, WAMI and Member States

3.2.1.4. Gross external reserves in months of import ≥ 6 months

This appears to be the most difficult criterion to meet. Indeed, only Nigeria has been consistently meeting this target despite the significant decline recorded in 2010 placing its reserves level at 7.8 months of imports compared to 16.6 in previous year. Since 2009, UEMOA countries have also been attaining this criterion while Sierra Leone and The Gambia met the target respectively in 2009 and 2010.

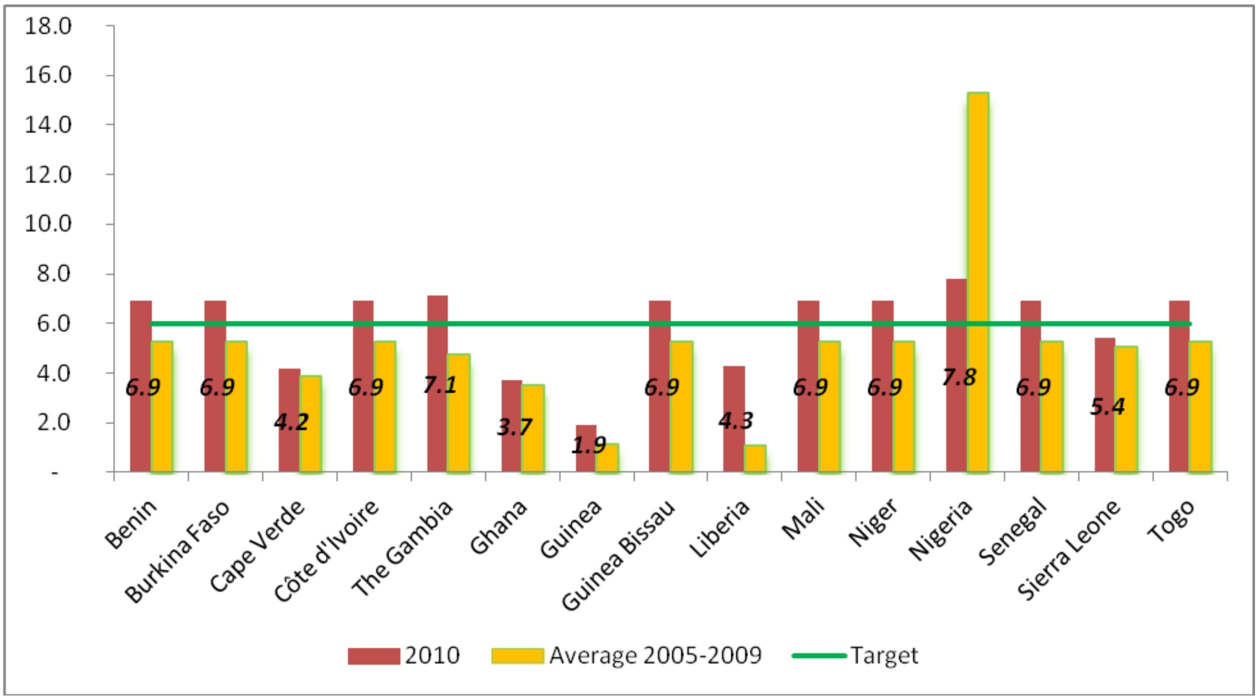
Table 6: Gross external reserves in months of import ≥ 6 months

	2005	2006	2007	2008	2009	2010	2005-2009
Benin	4.2	4.4	5.3	5.7	6.6	6.9	5.2
B Faso	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Cape Verde	3.6	3.4	4.1	4.0	4.2	4.2	3.9
Côte d'Ivoire	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Gambia	5.2	4.9	4.4	4.3	4.7	7.1	4.7
Ghana	4.0	3.7	3.9	1.8	4.1	3.7	3.5
Guinea	1.1	0.8	0.4	1.1	2.2	1.9	1.1
Guinea Bissau	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Liberia	0.1	0.1	0.7	0.7	3.6	4.3	1.0
Mali	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Niger	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Nigeria	11.8	15.1	17.4	15.3	16.6	7.8	15.2
Senegal	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Sierra Leone	4.8	4.9	5.1	4.2	6.2	5.4	5.0
Togo	4.2	4.4	5.3	5.7	6.6	6.9	5.2
Number of countries respecting the criterion	***1***	***1***	***1***	***1***	***10***	***10***	***1***

Source: ECOWAS Commission, WAMI and Member States

The green line in Figure XII above presents the minimum level countries are expected to attain. The Figure reveals that, for the 2005-2009 average, only Nigeria had gross reserves covering at least 6 months of imports of goods and services. However, UEMOA Member States have also been satisfying this criterion since 2009 while Gambia met the target in 2010.

Figure 13: Evolution of external reserves in months of import



3.2.2. Secondary criteria

3.2.2.1. Non-accumulation of new arrears and liquidation of old arrears

The performance under this criterion could not be analysed during the period under review because of lack of coherent data on the criterion for all Member States.

3.2.2.2. Tax Revenue/GDP ≥ 20 %

The data in Table 6 below reveal that the mobilisation of tax revenue remains a great challenge for Member States. It should be pointed out that since 2005, Cape Verde has been the sole country attaining this criterion followed by Ghana which only missed the target in 2010 and Liberia which attained the criterion twice (2009 and 2010). No other Member State has been able to achieve the 20% target.

Table 7: Tax burden ratio (≥ 20%)

Countries	2005	2006	2007	2008	2009	2010	2005-2009 Average
Benin	14.5%	15.4%	16.9%	17.2%	16.1%	16.4%	16.0%
Burkina Faso	11.8%	12.0%	12.0%	12.2%	12.6%	13.0%	12.1%
Cape Verde	21.5%	23.4%	24.4%	25.7%	22.2%	21.3%	23.4%
Côte d'Ivoire	13.9%	14.4%	15.5%	15.6%	17.4%	17.4%	15.4%
Gambia	17.2%	18.8%	15.2%	14.5%	17.5%	13.8%	16.6%
Ghana	21.9%	22.3%	26.1%	27.9%	22.1%	14.1%	24.1%
Guinea	12.2%	14.8%	13.5%	14.7%	16.4%	14.7%	14.3%
Guinea Bissau	11.3%	11.3%	5.7%	5.5%	6.7%	7.9%	8.1%
Liberia	14.7%	13.2%	12.6%	12.5%	23.2%	24.7%	15.2%
Mali	15.4%	14.9%	14.2%	13.3%	14.7%	14.8%	14.5%
Niger	10.3%	10.7%	11.3%	11.6%	13.7%	13.2%	11.5%
Nigeria	17.2%	15.1%	13.3%	17.1%	11.7%	11.9%	14.9%
Senegal	18.6%	19.0%	19.5%	18.3%	18.0%	18.9%	18.7%
Sierra Leone	8.1%	8.5%	7.8%	10.4%	9.3%	11.6%	8.8%
Togo	14.6%	15.4%	16.2%	14.9%	15.3%	15.7%	15.3%
Number of countries attaining the criterion	***2***	***2***	***2***	***2***	***2***	***2***	***2***

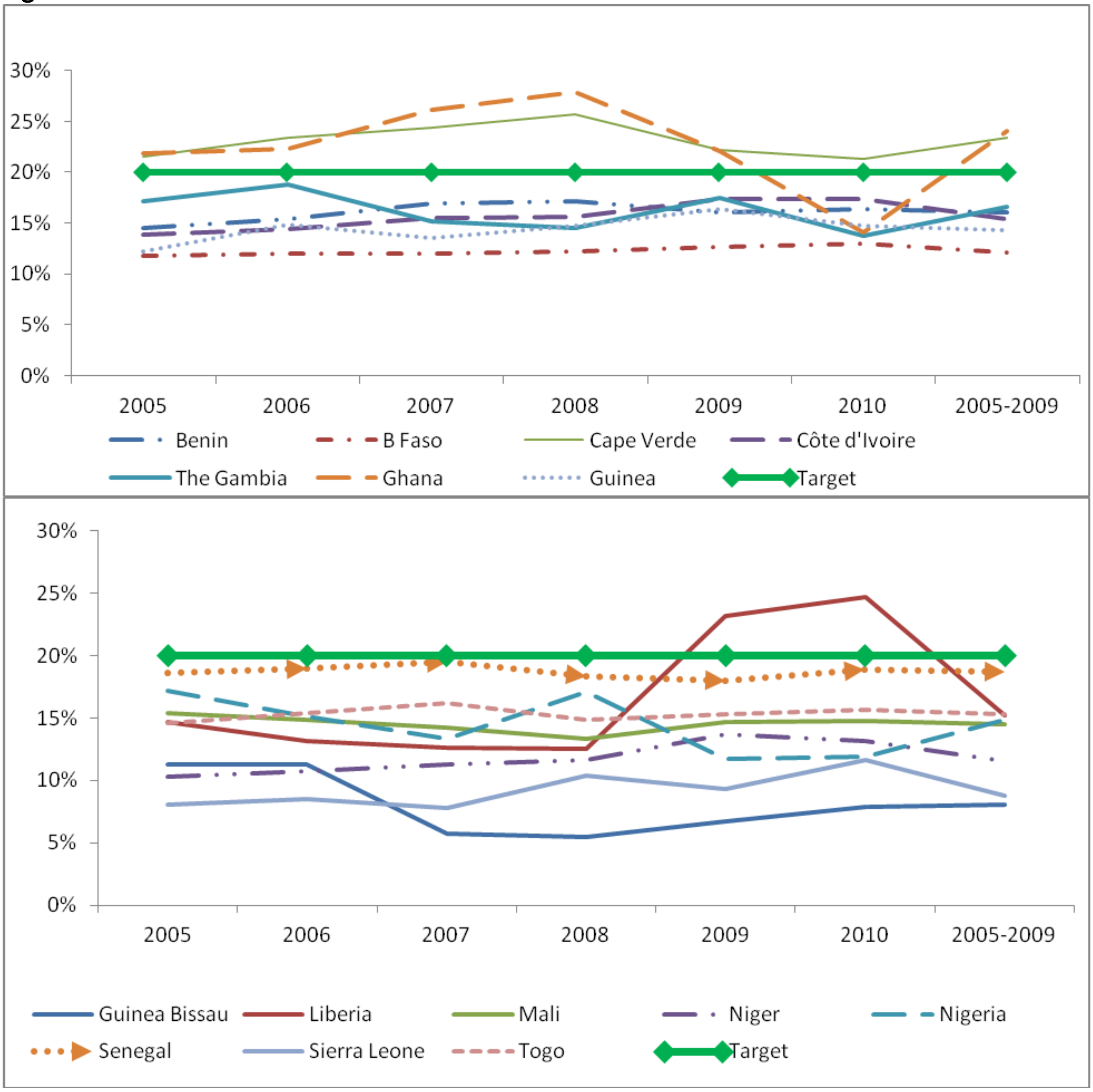
Source: ECOWAS Commission and Member States

Figure 14 presents the evolution of the tax burden indicator in Member States since 2005, with the green light indicating the minimum peak. This reveals that tax burden in Cape Verde and Ghana lies above the 20% target, notwithstanding the decline in Ghana's performance in 2010[6]. It is important to make mention of Liberia's improved performance during the last two years, the tax burden rate increased from 12.5% in 2008 to 23.2% in 2009 and 24.7% in 2010.

On average, Guinea Bissau and Sierra Leone are the poorest performers on this criterion which, when satisfied, is a prelude to the attainment of other public finance criteria (budget deficit, wage bill ratio) and adequate financing of public expenditure.

[6] This drop is attributed to the review of Ghana's national accounts, which raised its GDP.

Figure 14: Evolution of the tax burden in the Member States



3.2.2.3. Wage bill/tax revenue ratio ≤ 35%

In 2010, four (4) Member States (Mali, Niger, Senegal and Togo) attained this criterion against an average of seven (7) countries during the 2005-2009 period. However, it must be pointed out that Gambia and Ghana that had been achieving this target since 2005 failed to do so in 2010. Also between 2009 and 2010, Nigeria did not meet the criterion.

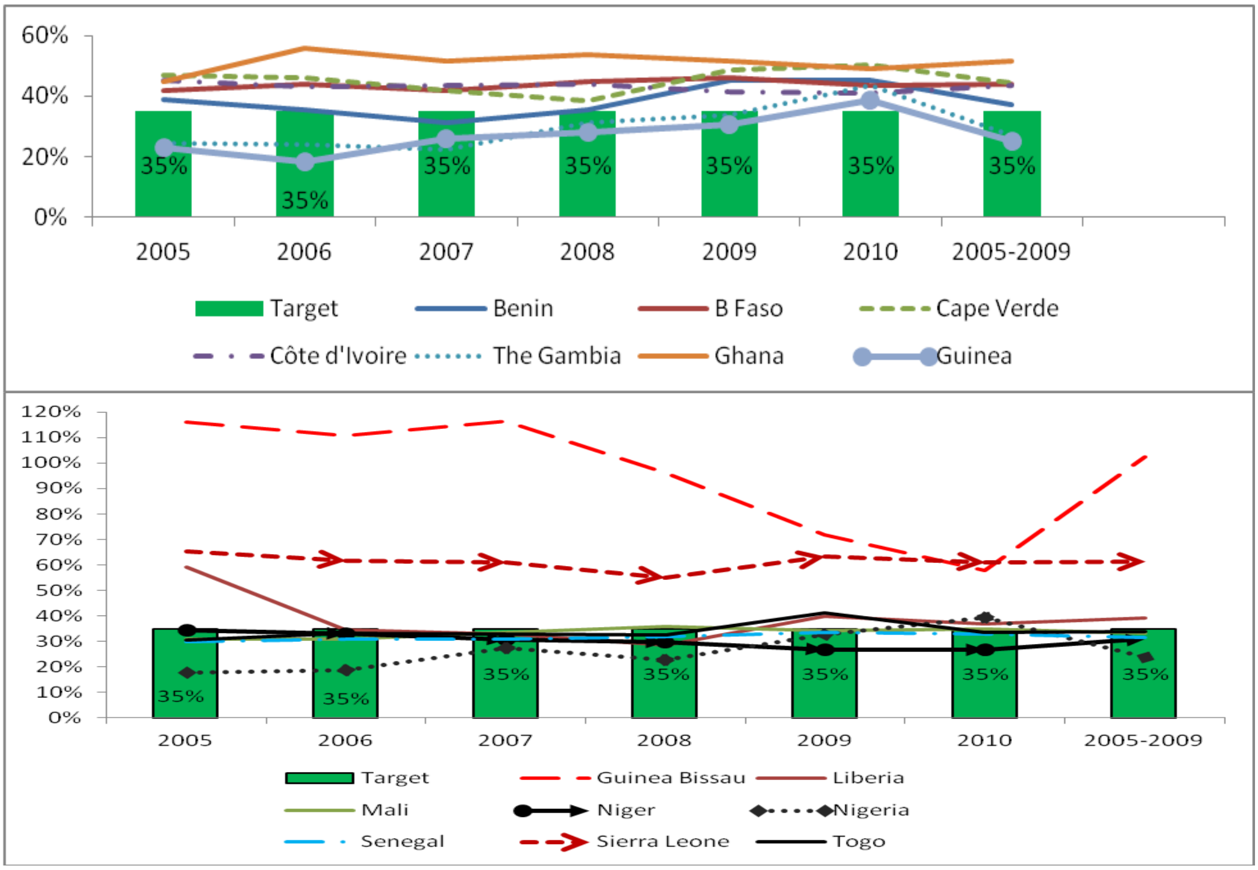
Table 8: Wage bill/tax revenue ≤ 35%

	2005	2006	2007	2008	2009	2010	2005-2009
Benin	39.0%	35.6%	31.0%	35.6%	45.1%	45.4%	37.3%
B Faso	42.0%	44.1%	42.0%	44.7%	46.2%	43.5%	43.8%
Cape Verde	47.1%	46.0%	41.6%	38.3%	48.8%	50.1%	44.4%
Côte d'Ivoire	45.0%	43.2%	43.6%	43.8%	41.5%	41.1%	43.4%
Gambia	24.3%	24.2%	22.3%	31.2%	33.7%	43.7%	27.1%
Ghana	44.8%	55.7%	51.5%	53.8%	51.6%	48.9%	51.5%
Guinea	23.2%	18.4%	25.9%	28.0%	30.6%	39.0%	25.2%
Guinea Bissau	116.1%	110.8%	116.5%	96.2%	71.8%	57.7%	102.3%
Liberia	59.2%	34.5%	32.9%	28.7%	39.9%	37.0%	39.0%
Mali	31.0%	30.9%	33.4%	35.8%	34.2%	34.9%	33.1%
Niger	34.7%	33.3%	31.0%	29.8%	27.3%	27.0%	31.2%
Nigeria	17.9%	18.8%	27.6%	22.7%	32.7%	39.6%	23.9%
Senegal	30.0%	31.0%	31.0%	32.0%	33.6%	32.7%	31.5%
Sierra Leone	65.5%	61.6%	60.9%	55.3%	63.3%	60.9%	61.3%
Togo	30.4%	33.1%	32.8%	32.7%	41.2%	33.5%	34.0%
Number of countries respecting the criterion	*7*	*8*	*9*	*7*	*6*	*4*	*7*

Source: ECOWAS Commission and Member States

In Figure 15 below, the green bar indicates the maximum limit. Any country where the wage bill/tax revenue criterion is above the bar did not meet this criterion.

Figure 15: Evolution of wage bill/tax revenue



3.2.2.4 Domestically financed public investment/tax revenue ≥ 20%

Eight (8) out of the fifteen (15) ECOWAS Member States attained this criterion against an average of seven (7) in the previous five years. They were: Benin, Burkina Faso, Guinea, Mali, Niger, Nigeria, Senegal and Sierra Leone.

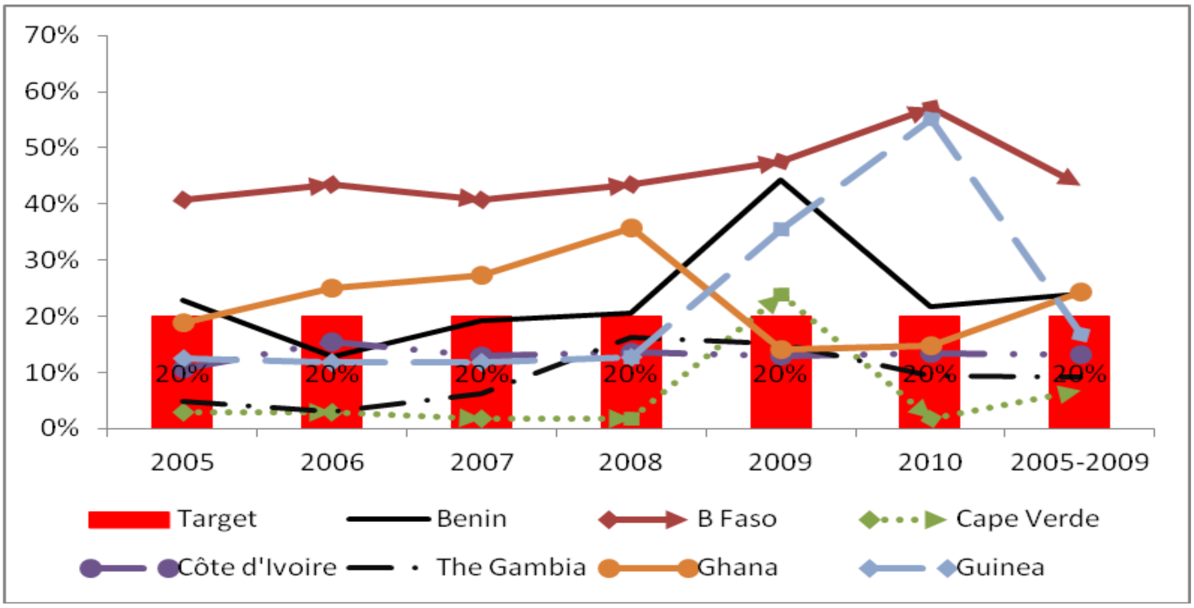
Table 9: Public investment financed from domestic resources ≥20%

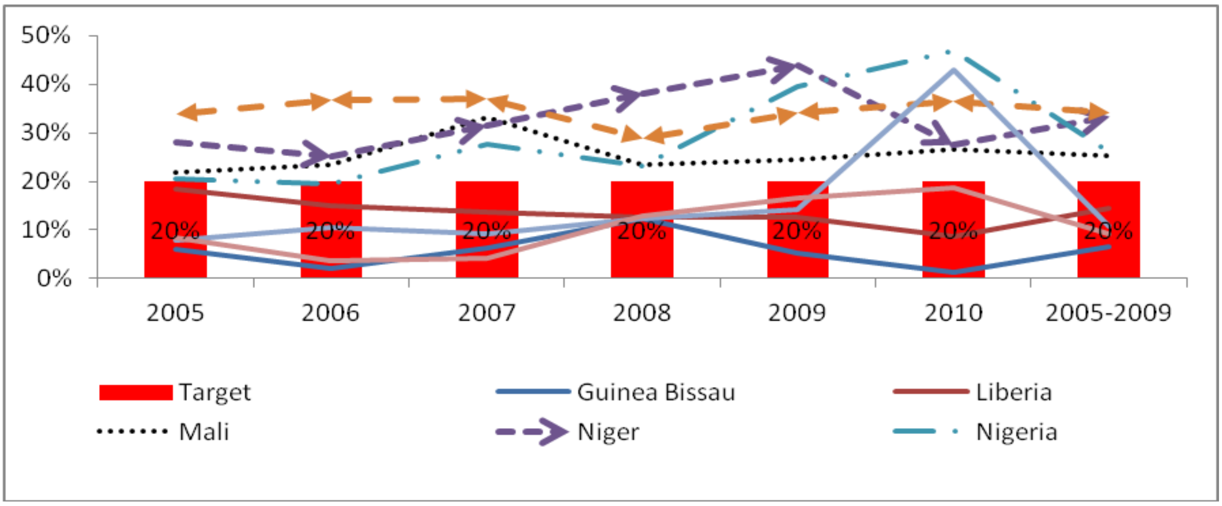
Countries	2005	2006	2007	2008	2009	2010	2005-2009
Benin	22.8%	12.8%	19.1%	20.6%	44.3%	21.7%	23.9%
Burkina Faso	40.8%	43.4%	40.8%	43.4%	47.6%	57.2%	43.2%
Cape Verde	2.9%	2.9%	2.0%	1.9%	24.0%	1.9%	6.7%
Côte d'Ivoire	10.7%	15.5%	12.8%	13.6%	12.9%	13.4%	13.1%
Gambia	4.8%	3.1%	6.3%	16.3%	15.1%	9.5%	9.1%
Ghana	18.8%	25.0%	27.3%	35.8%	14.1%	14.7%	24.2%
Guinea	12.6%	12.0%	11.9%	12.9%	35.6%	55.3%	17.0%
Guinea Bissau	6.0%	2.2%	6.4%	12.4%	5.3%	1.4%	6.5%
Liberia	18.3%	14.9%	13.8%	12.5%	12.5%	8.8%	14.4%
Mali	21.8%	23.4%	33.1%	23.5%	24.4%	26.7%	25.2%
Niger	28.1%	25.3%	31.6%	38.3%	44.1%	27.7%	33.5%
Nigeria	20.6%	19.6%	27.6%	23.2%	39.6%	46.8%	26.1%
Senegal	33.7%	36.6%	37.1%	28.9%	34.0%	36.4%	34.1%
Sierra Leone	7.9%	10.6%	9.1%	12.4%	14.3%	42.9%	10.9%
Togo	8.4%	3.6%	4.1%	12.9%	16.5%	18.6%	9.1%
Number of countries that met the criterion	*6*	*5*	*6*	*7*	*8*	*8*	*6*

Source : ECOWAS Commission and Member States

This scenario is also presented in Figure 16 below, the red bars indicating the forbidden area. To that end, any country with an indicator above the bar is considered as having met this criterion.

Figure 16: Evolution of public investment financed from domestic resources as % of tax revenue





3.2.2.5 Positive real interest rate

In 2010, it was observed that there was a decline in the number of countries that had attained this criterion compared to 2009. Indeed, only six Member States met this criterion, including four UEMOA Member States against eleven (11) Member States in the previous year and an average of six countries during the 2005-2009 period.

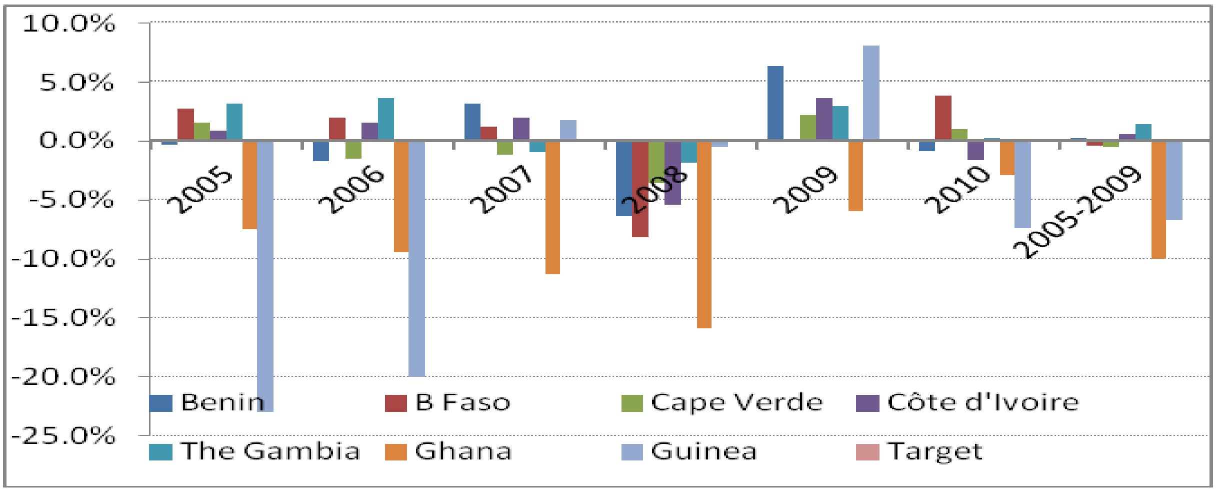
Table 10: Positive real interest rate

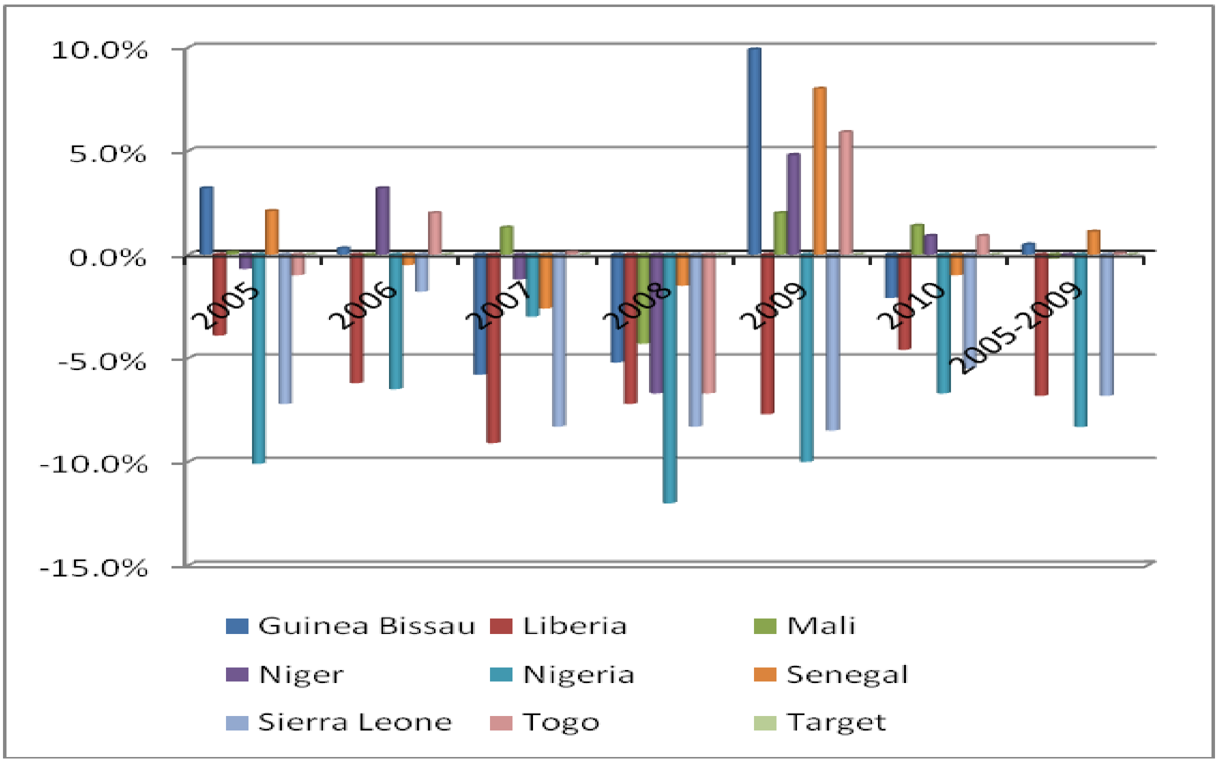
Countries	2005	2006	2007	2008	2009	2010	2005-2009
Benin	-0.3%	-1.7%	3.2%	-6.4%	6.4%	-0.8%	0.2%
Burkina Faso	2.7%	2.0%	1.2%	-8.1%	0.0%	3.8%	-0.4%
Cape Verde	1.5%	-1.5%	-1.2%	-3.6%	2.2%	1.0%	-0.5%
Côte d'Ivoire	0.9%	1.5%	2.0%	-5.4%	3.6%	-1.6%	0.5%
Gambia	3.2%	3.6%	-1.0%	-1.8%	3.0%	0.2%	1.4%
Ghana	-7.5%	-9.4%	-11.3%	-15.9%	-6.0%	-2.9%	-10.0%
Guinea	-23.0%	-20.0%	1.8%	-0.5%	8.1%	-7.4%	-6.7%
Guinea Bissau	3.2%	0.3%	-5.8%	-5.2%	9.9%	-2.1%	0.5%
Liberia	-3.9%	-6.2%	-9.1%	-7.2%	-7.7%	-4.6%	-6.8%
Mali	0.1%	-0.1%	1.3%	-4.3%	2.0%	1.4%	-0.2%
Niger	-0.7%	3.2%	-1.2%	-6.7%	4.8%	0.9%	-0.1%
Nigeria	-10.1%	-6.5%	-3.0%	-12.0%	-10.0%	-6.7%	-8.3%
Senegal	2.1%	-0.5%	-2.6%	-1.5%	8.0%	-1.0%	1.1%
Sierra Leone	-7.2%	-1.8%	-8.3%	-8.3%	-8.5%	-5.5%	-6.8%
Togo	-1.0%	2.0%	0.1%	-6.7%	5.9%	0.9%	0.1%
Number of countries attaining the criterion	*7*	*6*	*6*	*-*	*11*	*6*	*6*

Source: ECOWAS Commission, WAMA and Member States

Figure 17 below indicates that countries with an interest rate above zero met the criterion while countries with a performance indicator below zero missed the target.

Figure 17: Evolution of positive effective interest rates





3.2.2.6 Effective exchange rate stability ± 5%

Effective exchange rate is considered stable when its fluctuation margin varies between ± 5.0%. From this perspective, ten (10) countries attained this criterion compared to twelve (12) Member States in 2009.

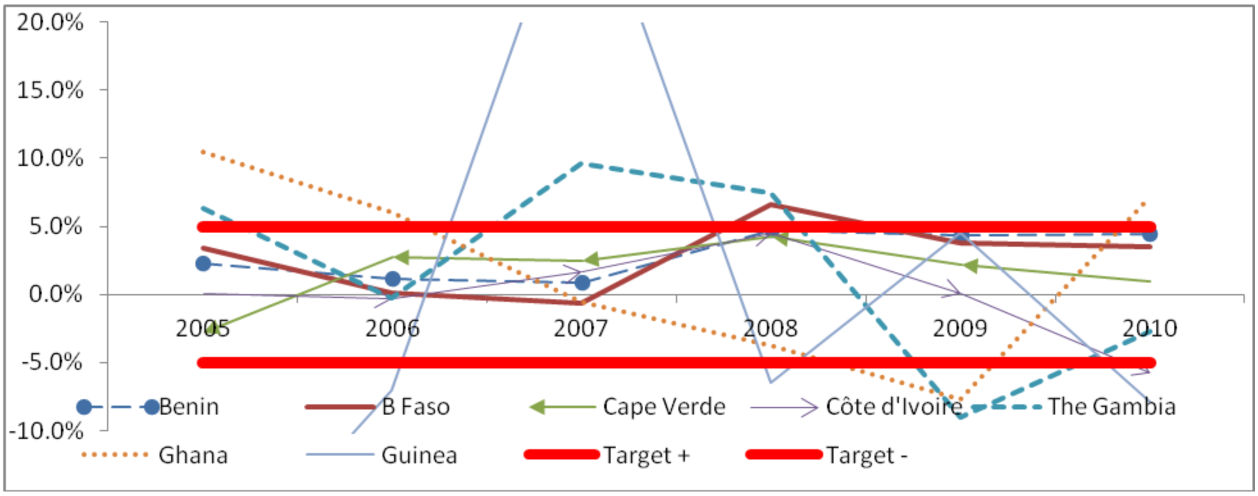
Table 11: Effective exchange rate stability (± 5% variation)

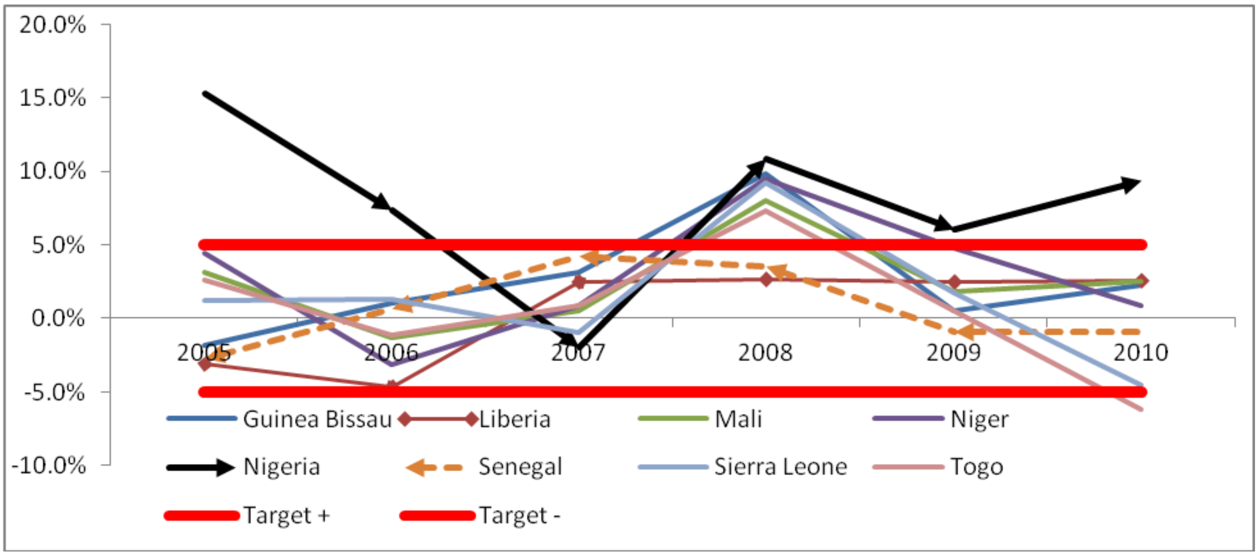
Countries	2005	2006	2007	2008	2009	2010
Benin	2.3%	1.1%	0.9%	4.7%	4.3%	4.4%
Burkina Faso	3.4%	0.1%	-0.6%	6.6%	3.8%	3.5%
Cape Verde	-2.8%	2.8%	2.5%	4.3%	2.2%	1.0%
Côte d'Ivoire	0.0%	-0.3%	1.6%	4.5%	0.0%	-5.7%
Gambia	6.3%	-0.3%	9.6%	7.5%	-9.0%	-2.7%
Ghana	10.5%	6.0%	-0.5%	-3.7%	-7.7%	7.2%
Guinea	-22.4%	-7.0%	32.6%	-6.5%	4.5%	-7.9%
Guinea Bissau	-1.8%	1.0%	3.1%	9.8%	0.5%	2.3%
Liberia	-3.1%	-4.6%	2.5%	2.7%	2.5%	2.6%
Mali	3.1%	-1.3%	0.5%	8.0%	1.8%	2.5%
Niger	4.4%	-3.1%	0.9%	9.5%	4.8%	0.9%
Nigeria	15.3%	7.3%	-1.9%	10.8%	6.0%	9.3%
Senegal	-2.7%	0.7%	4.3%	3.6%	-0.9%	-0.9%
Sierra Leone	1.2%	1.3%	-1.0%	9.2%	1.7%	-4.5%
Togo	2.6%	-1.1%	0.9%	7.3%	0.5%	-6.2%
Number of countries attaining this criterion	***11***	***12***	***13***	***6***	***12***	***10***

Source: ECOWAS Commission, WAMA, WAMI and Member States

Figure 18 below presents the evolution of effective exchange rate variations since 2005. It can be seen that with the exception of Guinea, Gambia and Ghana, the countries appeared to have performed within the "band". The second half of the Figure shows that apart from Nigeria, all the exchange rate variations of other countries were within the confines of the "band" (± 5%).

Figure 18: Evolution of effective exchange rate variations





The status by zone (UEMOA – WAMZ) is presented in the table below based on the performance in Member States, as outlined above. The table also demonstrates that the UEMOA attained five (5) of the convergence criteria in 2010 against six (6) in the preceding year while the WAMZ met three (3) against five (5) criteria in 2009 and three (3) compared to four in the previous year for the entire ECOWAS region.

Table 12: Convergence indicators by zone

		UEMOA		WAMZ		ECOWAS	
	Target	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Budget deficit/GDP	≤ 4%	6.5%	5.9%	3.7%	4.5%	4.6%	5.0%
Inflation rate	≤ 5%	-1.0%	3.9%	14.0%	11.7%	8.9%	9.1%
Central bank financing	≤ 10% RF n-1	0.0%	0.0%	0.9%	2.2%	4.9%	2.9%
Gross exchange reserves	≥ 6 mois	6.6	6.9	11.9%	7.3	10.1	6.9
Tax revenue/GDP	≥ 20%	15.6%	16.0%	11.9%	10.5%	13.5%	12.6%
Wage bill/tax revenue	≤ 35% RF	38.9%	38.2%	34.6%	47.5%	35.9%	44.3%
Investment financed from domestic tax revenue	≥20% RF	27.7%	26.1%	37.6%	29.8%	33.8%	27.9%
Real interest rate	> 0	4.5%	-0.4%	-9.3%	-5.9%	-4.7%	-4.1%
Effective exchange rate stability	± 5%	0.2%	4.1%	-5.9%	8.7%	-3.8%	7.1%

Source: ECOWAS Commission, WAMI and UEMOA

The table above gives a status report of the convergence by zone in 2010, with the red line indicating the maximum limit. Consequently, the graph reveals that the performance of the UEMOA zone in respect of the effective exchange rate stability, inflation and wage bill/tax revenue criteria was higher (even though the target was not met) than in any other zone. In the second half of the graph, the green line indicates the minimum target. It is therefore evident that with the exception of public investment financed from domestic resources in relation to tax revenue, all the zones need to put in more efforts towards attaining all the convergence criteria.

IV. HARMONISATION OF POLICIES AND INSTITUTIONAL ARRANGEMENTS

2.1 PROTOCOLS AND CONVENTIONS

Several legal instruments have been adopted by the Community decision-making bodies for the implementation of the ECOWAS regional integration process. In that regard, the pace towards the realisation of an ECOWAS economic and monetary union largely depends on the actual ratification and implementation of these legal instruments.

Concerning the protocols, out of fifty three (53) adopted as at the end of December 2010, seventeen (17) had not yet been ratified to enable them enter into force.

Furthermore, twelve (12) protocols/conventions have only provisionally entered into force, including three (3) on the completion of the economic and monetary union, namely:

1. General Convention A/C.1/01/03 on the Recognition and Equivalence of University degrees, diplomas and certificates and other qualifications of ECOWAS Member States
2. Protocol A/P.1/01/03 on the Definition of the Notion of Originating Products of Member States of the Economic Community of West African States (ECOWAS ; and
3. Protocol A/P.2/7/96 creating the Value-added Tax in Member States.

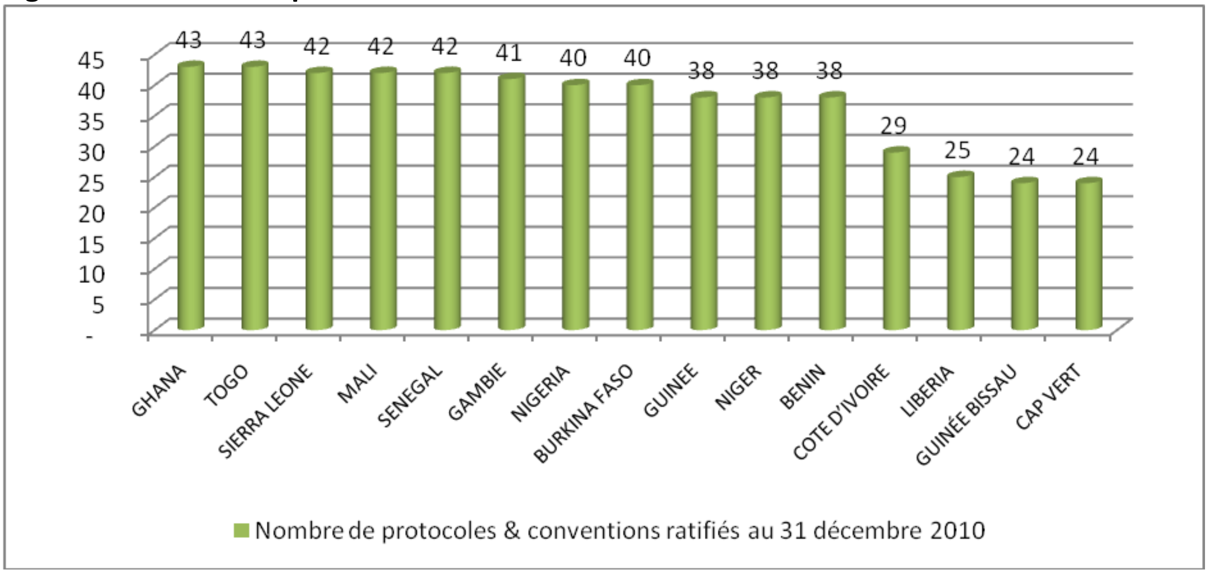
Special attention must be paid to protocols and conventions that have been ratified and are in force, particularly Protocol No. A/P1/5/79 on the free movement of persons, rights of residence and establishment and the protocols on the implementation of the ECOWAS trade liberalisation scheme, in particular:

i. Protocol No. A/P1/1/03 of 31st January 2003 defining the notion of originating products of ECOWAS Member States;
ii. Regulation No. C/REG.3/4/2002 of 23 April 2002 relating to the procedure for the approval of products under the ECOWAS Trade Liberalisation Scheme;
iii. Regulation No .C/REG.4/4/02 of 23 April 2002 adopting a certificate of origin for ECOWAS originating products; and
iv. Regulation No .C/REG.5/4/02 determining the components of ex-factory cost price of a product and the value-added.

A study of the status of ratification of protocols and conventions as at 31st December 2010 reveals that no Member State has ratified all the fifty-three (53) adopted legal instruments. Ghana and Togo appear to be ahead of other countries, having ratified forty three (43) protocols and/or conventions. On the other hand, Cape Verde and Guinea Bissau[7] are the two least performing countries with only twenty four (24) ratified protocols and/or conventions. Figure 19 below presents this situation.

[7] During the NCCs/CNPE appraisal mission to Guinea Bissau in March 2011, the national authorities pointed out that the delay in ratifying the legal texts was due to difficulties in translating them into the country's official language, Portuguese, for presentation to Parliament.

Figure 19: Number of protocols and conventions ratified as at 31st December 2010



Source: ECOWAS Commission

4.2 IMPLEMENTATION OF THE SINGLE CURRENCY ROADMAP

As part of measures for the implementation of the ECOWAS single currency roadmap, the ECOWAS Commission organised several meetings to present the major achievements in its realisation. Representatives of regional institutions (ECOWAS Commission, WAMA, WAMI, UEMOA Commission, WABA and central banks of ECOWAS Member States) involved in the implementation of the roadmap participated in the meetings. Activities undertaken in 2010 and in the first half of 2011 were on the following:

- Joint multilateral surveillance missions;
- Harmonisation of legal and public finance statistics framework;
- Statistical harmonisation process;
- Harmonisation of the policy regulatory frameworks: missions to Member States towards the removal of tariff and non-tariff barriers to the free movement of goods, persons and services in the ECOWAS region;
- Activities on the liberalisation of capital account in the ECOWAS region;
- Activities for the integration of financial markets in the ECOWAS region; and
- Quotation and transaction in ECOWAS currencies.

4.2.1 Multilateral Surveillance Mission

Two joint ECOWAS/WAMA/WAMI multilateral surveillance missions were fielded in 2010. In the first half of 2011, these regional institutions fielded a number of joint missions to Member States as indicated below:

- 21 - 25 March: Gambia, Senegal, Sierra Leone and UEMOA Commission
- 28 March – 1st April: Cape Verde, Guinea and Ghana

- 4 - 8 April: Liberia and Nigeria

The objective of the mission was to assess the Member States' performance in the macroeconomic convergence criteria for 2010 as well as the harmonisation of the requisite policies and programmes for the establishment of an economic and monetary union in the ECOWAS region. At the end of each mission, a memorandum was prepared and presented to the authorities in the countries visited.

Other activities undertaken in that context included the actual establishment and operationalisation of NCCs and the launch of the study for the harmonisation of convergence criteria within the ECOWAS region.

4.2.1.1 Actual establishment and operationalisation of NCCs

The creation of National Coordination Committees (NCCs) was envisaged in the provisions of Decision A/DEC.7/12/99 of 10 December 1999 adopting the macro-economic convergence criteria within the framework of the ECOWAS Monetary Cooperation Programme. The decision stipulates that National Economic Policy Committees (CNPE), already functional in UEMOA countries, will play the role of NCCs. This put an end to the controversy on the actual creation of NCC in these countries. The recruitment of macroeconomists and secretaries in 2009 with the financial assistance of the ECOWAS Commission through the 9th European Development Fund (EDF) paved the way for the establishment of effective and functional NCCs in non-UEMOA Member States. As at today, only Cape Verde does not have this structure.

Within the framework of institutional capacity building for multilateral surveillance in Member States, the ECOWAS Commission organised monitoring and evaluation missions in some NCCs/CNPE in 2010 and first half of 2011. The missions were to assess the activities of the structures and maintain political dialogue with major stakeholders involved in the implementation of the multilateral surveillance mechanism. The Commission also organised regional NCC meetings in Ouagadougou (May 2010) and Bamako from 2 to 6 May 2011 to consider the multilateral surveillance country reports.

4.2.1.2 Review and harmonisation of convergence criteria

The co-existence of three multilateral surveillance mechanisms in the ECOWAS region (UEMOA, WAMZ, ECOWAS) with often varied criteria makes it difficult to have a general understanding of why the performance of the convergence of some States may be satisfactory in one system and be poor in another system. To correct this situation, the ECOWAS Commission, in collaboration with regional institutions (UEMOA, WAMI, and WAMA) and with financial assistance from the ADB, undertook a study on the harmonization of convergence criteria in the ECOWAS region. The study, which was considered on 8 and 9 November 2010 and 25 to 27 May 2011 in Abuja, was validated at the meeting of the Inter-Institutional Technical sub-Committee on the ECOWAS Single Currency Programme, and will be presented for adoption by Member States.

4.2.2 Harmonisation of legal and statistical frameworks

4.2.2.1 Statistical harmonisation

Within the framework of statistical harmonization, several actions have been realised since 2010. Indeed, the ECOWAS Technical Committee for the implementation of the medium-term programme relating to the harmonisation of Consumer Price Indices (CPI) met in Lome from 10 to 13 October 2010. The meeting was held to consider the various CPI methodologies in use in the region and develop a regional methodology that would facilitate the creation of a harmonised CPI. Also, the National Accounts Technical Committee met from 4 to 8 October 2010 to consider the regional strategy for the harmonisation of national accounts in the region and implement the recommendation of the African National Accounts Group. The meeting validated the proposed regional nomenclature and activities for the finalisation of the regional strategy.

In the first half of 2011, national statistics officials held a meeting for the consideration and approval of the work plan of the ECOWAS regional statistics programme including harmonisation. The meeting enabled the ECOWAS Commission to produce the following documents:

- Draft Methodological Guide for the Harmonisation of Consumer Price Indices (CPI); and
- Draft Framework for Balance of Payments Statistical Harmonisation.

As regards balance-of-payments statistics*,* following the recommendation of the ECOMAC Meeting in May 2010, a statistical harmonisation project is on-going. After the workshop in Dakar in April 2011 for officials involved in the development of balance of payments in member countries, the next steps were the designation of focal points, conducting circular missions for deepening the analysis of current practices, formulation of the methodological guide, and organisation of the regional workshop to validate the guide.

Furthermore, the ECOWAS Macroeconomic Convergence Database (ECOMAC) was validated at the Cotonou workshop of 6 to 8 June 2011, Its launch was scheduled for the second half of 2011.

4.2.2.2 Harmonisation of domestic tax regimes

With the collaboration of the UEMOA Commission, the ECOWAS Commission is working with other Member States to harmonise the list and rates of products subjected to excise duties. It is expected that this exercise will lead to the harmonisation of two existing ECOWAS and UEMOA directives on excise duties.

4.2.2.3 Harmonisation of public finance frameworks

To harmonise the public finance management frameworks, the ECOWAS Commission hired consultants to undertake four studies: draft reports on the studies were presented and considered in Lome from 1 to 5 November 2010. Following that meeting, a second meeting was organised in Dakar from 20 to 24 June 2011 to consider the amended versions, which reflect the observations and recommendations made at the Lome meeting. At the Dakar meeting, fresh proposals and observations were made and the consultants were requested to incorporate them into their final reports, including plans of action for the implementation of major conclusions and recommendations.

The objectives of the four studies are as follows:

1. Study on the public finance accounting and statistical frameworks of the ECOWAS region

The study is aimed at analysing public finance accounting and statistical frameworks in ECOWAS Member States as well as the methods for preparing and presenting public finance statistics with a view to making recommendations for a harmonised framework. This is necessary particularly for budget nomenclature and accounting plan, as well as for facilitating comparisons between countries of the zone in respect of multilateral surveillance of economic policy. Similarly, the study is aimed at assessing the Member States' capacity to implement ECOWAS multilateral surveillance decisions.

2. Study on existing legal and institutional framework and national authorities' public debt management capacities in ECOWAS Member States

The objective of this study is to evaluate the current mechanisms for the management of public debt in ECOWAS Member States. The study places special attention on the formulation of reform measures for strengthening policy harmonisation and coordination in public debt management in the ECOWAS region. Furthermore, it envisages, inter alia, proposing a plan of action for the development of a harmonised policy framework and public finance management procedures.

3. Study on existing public procurement laws and practices in institutions of ECOWAS Member States' practices in public procurement in ECOWAS Member States

The purpose of this study is to analyse the current legal and institutional mechanisms and practices in public procurement in Member States of the region and propose a plan of action for the development of a harmonised public procurement framework.

4. Study on the harmonisation of the regulatory public finance framework in ECOWAS Member States

This study is to evaluate the methods of budget preparation, presentation and execution within the framework of the harmonisation of the regulatory framework for the management of public finance in Member States, and promoting transparency in public administration.

4.2.3 Harmonisation of money and finance-related frameworks

4.2.3.1 Harmonisation of regulation and supervision of banks and other financial institutions

The regulation and supervision of financial activities in the UEMOA region have been harmonised. Member countries of the West African Monetary Zone (WAMZ) have, however, continued to introduce measures to reduce risks and strengthen the financial stability in the zone. In that regard, a College of Supervisors for the WAMZ (CSWAMZ) was established by WAMZ in 2010 to promote the exchange of information and views amongst supervisors. This is to make it possible for them to have a common understanding of risk profile, coordinate prudent surveillance and assess the risks threatening banks which have subsidiaries within the region. The BCEAO, through the UEMOA Banking Commission is expected to be represented on the College in an observer capacity.

Additionally, within the context of the implementation of the activities included in the roadmap for the ECOWAS single currency, WAMA has, in collaboration with WAMI and BCEAO, drawn up the terms of reference for that study.

4.2.3.2 Harmonisation of legislations governing external financial relations

As a follow-up to the meeting of institutions coordinating this activity included in the roadmap in March 2011, in Dakar, it was agreed to limit the scope of the study to operations within the ECOWAS region. Given that the study on external financial relations should be undertaken during the launch of the ECOWAS monetary union, the terms of reference were finalised and the process for selecting the consultant is underway.

4.2.3.3 Harmonisation of accounting and reporting framework of banks and other financial institutions

The terms of reference have been validated by the three coordinating institutions (WAMA, WAMI and BCEAO) and efforts are being made to complete the study.

4.2.3.4 Harmonisation of monetary policy framework

This study, which is under the leadership of WAMA, has commenced with the adoption of terms of reference by the three coordinating institutions (WAMI, BCEAO and WAMA). The process is on-going.

4.2.3.5 Payments systems infrastructure for intra-ECOWAS transactions

The BCEAO has established an infrastructure for payments systems including the Real Time Gross Settlement (RTGS) system in the UEMOA Member States.

In WAMZ member countries, WAMI has embarked on the modernisation of payments through an ADB-assisted project in four countries, namely: Gambia, Guinea, Liberia and Sierra Leone. The objective of this initiative is to harmonise the payments systems of these countries with those in Ghana and Nigeria.

The Technical sub-Committee on the implementation of the roadmap recommended that WAMI should ensure that this new system is compatible with those in force in UEMOA Member States.

4.2.4 Removal of tariff and non-tariff barriers to the free movement of goods, persons and services in the ECOWAS region

The removal of barriers to the free movement of goods will promote the consolidation of the free trade area and establishment of the Community customs union. Also, the removal of barriers to the free movement of persons will encourage the mobility factor within the region, a prerequisite for the creation of the monetary union.

4.2.4.1 Consolidation of the Free trade area (FTA)

The consolidation of the free trade area is being implemented through the ECOWAS Trade Liberalisation Scheme (TLS). The objective of the scheme is to promote intra-Community trade through the elimination of tariff and non tariff barriers to the import and export of products originating in Member States.

To attain this medium and long-term objective, the ECOWAS Commission has initiated various measures for the effective application of the ECOWAS trade liberalisation scheme by Member States. They include:

- Analysis and validation of application forms approved by the National Approvals Committees, and subsequent notification of all Member States;
- Creation of an ECOWAS/UEMOA consultative forum to study the difficulties and obstacles encountered during the implementation of trade liberalisation programmes and propose solutions for the amendment and harmonisation of legal texts of the two institutions in that area;
- Strengthening cooperation with non-governmental organisations involved in intra-regional trade such as the USAID projects West Africa Trade Hub (Trade Hub) and Agribusiness and Trade Promotion (ATP) with a view to seeking their assistance in the capacity building of structures responsible for trade issues in Member States and enhancing the advocacy ability of stakeholders in intra-Community trade; and
- Creation of an ECOWAS trade liberalisation scheme website with the support of German Cooperation Agency (GIZ).

However, despite these achievements, it must be pointed out that non-tariff barriers continue to exist and hinder the development of intra-Community trade. Member States are encouraged to sustain a healthy cooperation and transparency in the implementation of the TLS to ensure that difficulties often arising from poor communication are resolved.

4.2.4.2 Establishment of the Customs Union

Since the formal adoption of the ECOWAS Common External Tariff (CET) and the creation of a Joint ECOWAS/UEMOA Committee for its completion by the Authority of Heads of State and Government in January 2006 in Niamey, some remarkable progress has been made. In line with this decision, ten (10) meetings of the Joint Committee and several technical specialised meetings have been held, leading to the formulation of a preliminary draft ECOWAS CET with the following characteristics:

- A Tariff and Statistical Nomenclature (TSN) based on the harmonised system (HS) for the designation and codification of goods of the World Customs Organisation (WCO);
- A table of duties and taxes applicable to imported products ;
- Products listed in the Tariff and Statistical Nomenclature are divided into five (5) categories as indicated below:
  - ✓ Category 0 : essential social goods – 0%;
  - ✓ Category 1: basic consumer goods, basic raw materials, capital goods and specific inputs - 5%;
  - ✓ Category 2: intermediary products and inputs – 10%;
  - ✓ Category 3: final consumer goods – 20%; and
  - ✓ Category 4: specific goods for economic development – 35%.

Additional activities have been scheduled for the second half of 2011, which should facilitate the establishment of the essential components of the ECOWAS CET by January 2012. They are:

- ✓ The quest for coherence between market access offer within the framework of EPA negotiations and ECOWAS CET products classification;
- ✓ Adjustment to the Tariff and Statistical Nomenclature following the progression from SH_{2007} to SH_{2012}
- ✓ Finalisation of accompanying measures;
- ✓ Finalisation of safeguard measures.

4.2.4.3 Free movement of persons and the right of establishment

The free movement of Community citizens in the ECOWAS region and the right of establishment in Member States constitute one of the pillars of the integration process. To that end, as part of the public awareness programmes of the protocol on free movement through the various channels of communication, national media networks on free movement were set up in Benin, Cape Verde, Côte d'Ivoire, Ghana, Guinea Bissau, Mali, Niger, Nigeria, Senegal and Togo. The mission of these networks is to promote, through public and private media using the national languages, an awareness of the ECOWAS protocol on the free movement of persons, and the right of residence and establishment

Furthermore, the ECOWAS Commission is working towards establishing free movement of persons and goods observatories. These observatories will provide information for all road users, including security agents, on their rights and obligations as set out in the ECOWAS protocol on free movement. They will also handle cases of abuse and harassment.

The Commission has also met with security agents at Nigerian borders within the context of the creation of a special surveillance unit on the Agbara-Seme highway in Nigeria. The Unit would become operational in 2011.

In addition, the annual meeting of Directors of Immigration on the status of implementation of the protocol[8] on free movement of persons has revealed that ten (10) Member States have actually introduced the ECOWAS harmonised passport. Also, the process of establishing a common West African visa has reached an advanced stage. This will prevent visa duplications and promote tourism and investment in the region.

On road malpractices, the 14th report on *Improved Road Transport Governance initiative (IRTGI) on West African interstate corridors*[9] in the 4th quarter of 2010 gave a detailed representation of harassment transporters on the West African highway face using the following three indicators as reference: the number of checkpoints, amount of bribes and period of delay. According to the report, the amount of bribes paid by carriers to uniformed agents stood at US$61,662 and there were 19,161 checkpoints resulting in a cumulated delay of 148.5 days.

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[8]It is also worth noting that the protocol on free movement is being reviewed for possible amendments.

[9] The 9th IRTGI report presenting the findings of a survey obtained from 1 July to 30 September 2009 demonstrates that the number of control points over 100 km ranges between 2 and 4. Senegal had the largest number of control points, with 4 per 100 km, followed by Mali with 3. The number of bribes per 100 km ranges between USD 3.42 in Togo and USD 10.22 in Mali. Delays caused by inspections at the control points per 100 km range between 7 minutes in Togo, 17 minutes in Mali, and 23 minutes in S3enegal.

Consequently, the average number of checkpoints per 100 km is about 2. The average bribes per 100 km vary between US$2.8 (in Ghana) and US$13.96 (Côte d'Ivoire). The average period of delays per 100 km varies between 14 minutes (Togo and Ghana) to 28 minutes (Senegal). This situation represents a general increase in malpractices for all criteria used: 2.5% for checkpoints, 3.1% for the amount of bribes and 74.0% for delays.

4.2.5 Exchange rate stability

WAMA engages in the calculation of exchange rate on a daily basis and the publication of periodic reports. It has also conducted a study on the misalignment of exchange rate and its impact on the single currency project. In addition, discussion is on-going on the modalities for the creation of an ECOWAS exchange rate mechanism.

4.2.6 Capital account liberalisation in the ECOWAS region

Not much progress has been made in this field. Only Cape Verde, Gambia and Liberia have liberalised their capital accounts while the other member countries continue to exert some measure of control on the account. In the UEMOA region, the freedom of intra-Union capital flow is guaranteed.

4.2.7 Financial market integration

Fully aware that a successful monetary integration depends on financial market integration, the ECOWAS Commission, in collaboration with the West African Bankers Association (WABA), placed an advert for the expression of interest to undertake a feasibility study for the creation of a regional payments system in ECOWAS. Following this invitation to tender, eight (8) applications were received, of which four were invited to submit their technical and financial offers.

It is also envisaged to establish a credit risk agency accessible to all financial institutions in the region, which will have information on all resident debtors or those borrowing from a credit institution operating within the region.

Discussions on how to integrate the three major West African stock exchange markets (Nigerian Stock Exchange, Ghana Stock Exchange and Regional Stock Exchange – BRVM) were slightly stalled as a result of the change in the leadership of the Nigerian Stock Exchange and the political developments in Côte d'Ivoire.

In addition, the creation of an ECOWAS Common Investment Market is on-going with a number of measures such as the composition of a Common Regional Investment Market Council and National Coordination Committee in each Member State.

4.2.8 Quotation and transaction in ECOWAS currencies

In 2010, WAMA conducted a study on "the Use and Acceptability of National Currencies in intra-regional Transactions" which was presented for the consideration of the Committee of Governors at its July 2010 session in Banjul. The Committee deemed it necessary to adopt a prudential approach given the non-convertibility of the effective exchange rate of several currencies and the potential on speculative attacks. Consequently, it requested WAMA and WABA to work together on this issue with a view to putting forward new proposals. The two institutions are therefore working together in that regard.

V. PROSPECTS

The creation of a monetary union in the ECOWAS region is dependent on the strong political will of the various stakeholders, particularly the Member States. This will make remarkable progress possible, particularly if accompanied by the support of development partners including the European Union, World Bank, African Development Bank and other bilateral and multilateral donor organisations.

The ECOWAS Commission has therefore initiated several projects, among which are the formulation of multi-annual convergence programmes, adoption of a convergence, stability and solidarity pact among Member States, harmonisation of convergence criteria and implementation of activities in the roadmap of the ECOWAS single currency programme.

5.1 HARMONISATION OF CONVERGENCE CRITERIA

The co-existence of three multilateral surveillance mechanisms in the ECOWAS region (UEMOA, WAMZ, ECOWAS) with often varied criteria makes it difficult to have a general understanding of why the performance of the convergence of some States may be satisfactory in one system but be poor in another system. To rectify that situation, the ECOWAS Commission, in collaboration with regional institutions (UEMOA, WAMI, WAMA) and with financial assistance from the ADB, undertook a study on the harmonization of convergence criteria in the ECOWAS region. The study, which was considered and validated during the meeting of the Technical sub-Committee on Single Currency held in Dakar from 27 to 29 June, is due to be presented to the Member States for adoption. It is therefore expected that new, region-specific convergence criteria will be adopted by the ECOWAS decision-making organs before the end of 2011.

5.2 MULTI-ANNUAL CONVERGENCE PROGRAMMES

The Authority of Heads of State and Government adopted Decision A/DEC.17/12/99 on the convergence criteria under the ECOWAS Monetary Cooperation Programme. The Authority also adopted Decision A/DEC.17/12/01 creating a mechanism for the multilateral surveillance of economic and financial policy of ECOWAS Member States. These two decisions invite Member States to formulate multi-annual convergence programmes (cf. Article 3 of Decision A/DEC.17/12/99 and Article 7 of Decision A/DEC.17/12/01). Since the adoption of the two decisions, no convergence programme has been officially formulated and transmitted to the ECOWAS Commission. This is attributed to the fact that, since the adoption of the decisions, no framework for drafting the convergence programmes or timeframe for convergence indicating convergence benchmarks has been defined.

To attenuate this inadequacy, the ECOWAS Commission prepared a preliminary draft guide for the formulation of the multi-annual convergence programme. The guide was considered and validated by the NCCs/CNPE and regional institutions during the meeting held in Bamako on 28 and 29 April 2011.

The amended version of the guide for the preparation of multi-annual convergence programmes will be presented for adoption at the next session of the Convergence Council. It is expected that Member States will start preparing their multi-annual convergence programmes from October 2011, using the guide as a reference.

5.3 CONVERGENCE PACT FOR MEMBER STATES

The drafting of these multi-annual convergence programmes using a specific guide as reference presupposes the existence of a convergence horizon that reflects the determination of the Community decision-making organs, i.e., the ECOWAS Authority of Heads of States and Government. To resolve the absence of a Convergence Pact in the West African region, the ECOWAS Commission has started the process of drafting such a document. In that regard, a technical meeting was organised by the Commission in Abuja from 23 to 25 May at the end of which a preliminary draft convergence pact was formulated. This pact will determine, inter alia, the stages of multilateral surveillance, convergence horizon and mechanism of evaluation and sanction.

5.4 IMPLEMENTATION OF THE MEASURES IN THE SINGLE CURRENCY ROADMAP

As part of measures for the implementation of the roadmap, the ECOWAS Commission will undertake the activities assigned to it and facilitate the realisation of those assigned to other regional institutions. The activities of the ECOWAS Commission identified in the roadmap include:

- Finalisation of the study on the convergence criteria, which should be adopted by the end of 2011;
- Continued development of the technical capacity of the NCCs/CNPE;
- Organisation of meetings with officials of Member States and regional institutions to validate various studies currently being finalised;
- Fielding joint multilateral surveillance missions in the second half of 2011;
- Pursuit of efforts to re-categorise products for the establishment of the customs union;
- Capacity building of Member States on the application of EUROTRACE and basic tools for the calculation of trade indices;
- Harmonisation of balance-of-payments statistics in the ECOWAS region; and
- Adoption of the ECOWAS CET.

VI. **CONCLUSIONS AND RECOMMENDATIONS**

In an international environment characterised by efforts at global economic recovery as a result of the financial and economic crunch in 2008, the ECOWAS Member States' economies achieved contrasting results in 2010. Indeed, most of the member States faced macroeconomic challenges. Economic growth in several countries in the region fell below the 7% rate considered the region's minimum growth rate for effectively combating poverty. What is more, the region recorded an upsurge of inflationary pressure in 2010, higher than that of the previous year.

In the area of public finance, budget deficit remained high in 2010 as a result of poor tax revenue structures. Similarly, external reserves slumped in 2010 against the previous year's performance, coupled with the degradation of the balance of current transactions in most countries.

An analysis of the performance of macroeconomic convergence revealed that, notwithstanding the efforts put in by the Member States, 2010 recorded less than satisfactory progress in the criteria adopted under the ECOWAS Multilateral Surveillance Mechanism.

Measures still need to be adopted to harmonise the statistical framework, ratify and effectively implement several legal instruments and Community development programmes.

Due to the foregoing, it is expected that the implementation of the recommendations below should help improve the economic performance of Member States and multilateral surveillance. They include the need for:

- the Member States to expedite action on the implementation of the various legal instruments adopted by the Community, particularly the protocol on the free movement of persons and goods, as well as the provisions relating to the trade liberalisation scheme;
- the Member States to formulate, validate and transmit, within the stipulated time-frame and the limits of the adopted framework, periodic macroeconomic convergence reports to the ECOWAS Commission;
- the Member States to continue and intensify their efforts to control excessive budget deficit and promote a sustainable budget and debt policy;
- the Member States to adopt a policy for rationalising budget spending;
- WAMA to establish a tool for calculating and stabilising the real actual exchange rate; and
- the ECOWAS Commission to pursue its efforts at building the capacities of NCCs/CNPE through increased technical and financial support.