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Currency Convertibility in the Economic Community of West African States

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I. Introduction

One of the principal aims of the integration effort of the member countries of the Economic Community of West African States (ECOWAS), 1/ is to promote the expansion of trade among the member states. This is to be achieved, in part, through the elimination of quantitative and other restrictions on trade. A customs union is to be established in the subregion over a period of 15 years from the entry into force of the Treaty of Lagos of May 1975, under which ECOWAS was established. The trade liberalization program drawn up within the general framework of the Treaty provides for the gradual elimination of import duties and other tariff and nontariff barriers to intra-Community trade, and the harmonization of external tariffs, over the period 1981-89. As part of this program, several studies have identified, as one of a number of impediments to the development of intraregional trade, the existence of widespread controls and restrictions on exchange transactions throughout the Community which render most of the 11 currencies of member countries of ECOWAS 2/ inconvertible. The need to achieve currency convertibility within the ECOWAS region is therefore viewed as important in the Community's efforts to remove obstacles to intraregional trade.

In November 1979, the Committee of Central Bank Governors of ECOWAS requested the ECOWAS Secretariat to initiate a study on the problems of currency inconvertibility in the ECOWAS region. This decision was endorsed by the Council of Ministers of ECOWAS countries at its meeting in Dakar, Senegal, also in November 1979. The need for such a study was seen to be consistent with the overall objective of ECOWAS to achieve the integration of the economies of the 16 countries in the subregion in an economic union. A formal request for technical assistance by the Fund to undertake the study was approved by the Executive Board of the Fund in May 1980.

Within the limitations imposed by data deficiencies, the differences in the stage of development of the ECOWAS countries, and the problems in the balance of payments of several ECOWAS countries in present circumstances, the principal objectives of the study were:

a. To describe the existing exchange arrangements and exchange systems in the subregion and review their effects on intra-community trade and payments;

b. To assess prospects for achieving "limited convertibility" (defined in this report as intraregional convertibility) of currencies,

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

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

with specific reference to prospects for liberalization and harmonization of exchange controls and restrictions, taking into account the long-term objective of monetary union within ECOWAS;

c. To determine the conditions necessary for achieving convertibility within ECOWAS with particular reference to monetary and exchange rate policies, the balance of payments and management of foreign exchange reserves;

d. To make recommendations for a "program of action" for the achievement of convertibility within the subregion as an initial step toward the longer-term goal of monetary integration.

Factual material for the study and the views of the member countries of ECOWAS on the many complex issues, were obtained in responses to a questionnaire prepared by the Fund staff and forwarded to all ECOWAS countries in June 1980. The questionnaire sought specific information on the institutional framework in individual ECOWAS countries, particularly the exchange and trade system and the financial system, data on intraregional trade and on procedures for settlements within the subregion, and comments on some of the main policy aspects that would be involved in any move toward currency convertibility within the subregion. Responses to the questionnaire were received from all but one of the ECOWAS countries. 1/

In order to amplify the responses to the questionnaire, and more particularly to assess at first hand the problems relating to the achievement of convertibility within ECOWAS, a Fund staff mission visited seven ECOWAS countries during the period July 17-August 8, 1980. The Fund team was accompanied by Mr. R.D. Asante of the ECOWAS Secretariat, and Mr. O. Diallo of the ECOWAS Fund. The countries visited by the mission 2/ were selected according to criteria which sought to provide a representative basis for comparison on the basis of geographical spread, economic size, relative degree of development, and trading relationships with the former metropolitan countries. In each of the countries visited, the mission had discussions with the Minister of Finance and the Governor of the central bank or their senior officials, in some cases with officials of Ministries of Trade or Commerce, and with representatives of commercial banks or trading companies and Chambers of Commerce. In addition to its discussions in individual countries, the mission met with officials of the African Center for Monetary Studies in Dakar, Senegal; the West African Clearing House in Freetown, Sierra Leone; and the ECOWAS Secretariat in Lagos, Nigeria. Throughout its discussions, the mission emphasized that it was seeking views on what were essentially matters of a technical nature and that, for the purposes of the report, these views would not be represented as those held by the authorities of particular member states of ECOWAS.

1/ A joint response on behalf of the members of the West African Monetary Union was provided by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

2/ Ghana, Guinea, Guinea-Bissau, Ivory Coast, Nigeria, Senegal, and Sierra Leone.

The paper which follows is a slightly revised version of the report of the Fund staff team that was forwarded to the ECOWAS authorities in November 1980. The paper is organized as follows: Chapter II presents a discussion of concepts of convertibility. This discussion assesses various forms of currency convertibility within the context of short-run and long-run objectives of monetary integration, and sets out the requirements for monetary integration. Chapter III describes the present institutional arrangements in ECOWAS countries, contrasting the various approaches taken in individual countries in the implementation of domestic and external economic policies. Chapter IV reviews the pattern of trade of the ECOWAS countries, while Chapter V describes the present arrangements for the settlement of financial transactions in the sub-region. There is also a comprehensive review in this chapter of the role and functions of the West African Clearing House. Chapter VI summarizes the discussions conducted by the mission in selected ECOWAS countries, focusing on the problems of convertibility for intra-regional trade, forms of monetary cooperation that could be considered suitable in the present circumstances of the ECOWAS countries, and the preconditions that need to be met before the first phase of monetary integration could take place. The final chapter presents the conclusions of the study and a set of recommendations for a program of action to achieve convertibility.

II. Concepts of Convertibility and Stages of Monetary Integration

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

1. The meaning of convertibility

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

A currency may have different degrees of convertibility vis-à-vis various other currencies. The degree of convertibility of a currency can be viewed as a function of the ease with which it can be converted into other currencies and the extent to which it can be used for various types of foreign transactions. In practice there are differing degrees of "exchangeability and usability" of currencies that for any particular currency define its degree of convertibility. In this context and for the purposes of this study, "limited convertibility" will refer to the unrestricted exchange and use of the currencies of countries within a region for each other. This would be the case if in all of the countries within a region all exchange controls and restrictions vis-à-vis each other were eliminated. 1/

Under the Second Amendment of the Articles of Agreement of the IMF, which became effective April 1, 1978, the concepts of "a convertible currency" and "currency convertible in fact" disappeared from the Articles. 2/ Nevertheless, "it remains a purpose of the Fund that members should undertake to perform the obligations of convertibility under Article VIII, among which the obligations relating to market convertibility are of leading importance." 3/4/

1/ These countries could, however, continue to maintain some restrictions on trade, invisibles, or capital flows so that while the currencies of the region were fully exchangeable they would be usable for a defined range of transactions. The discussion that follows clarifies this further.

2/ See Gold, Joseph, Use, Conversion, and Exchange of Currency Under the Second Amendment of the Fund's Articles, IMF Pamphlet Series, No. 23, Washington, D.C. 1978, p. 2.

3/ See Gold, Joseph, "Convertible Currency Clauses Under Present International Monetary Arrangements," The Journal of International Law and Economics, (The National Law Center, The George Washington University), Vol. 13, No. 2, Washington, D.C., 1979, p. 252.

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

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

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

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

Satisfying the conditions of Article VIII, Section 4 differs in at least three respects from the requirements for total convertibility. First, under Article VIII a currency is not necessarily exchangeable for the currency of any other country. What is involved is a commitment on the part of each Fund member to buy any balances of its own currency acquired by another member, subject to various provisions, in SDRs or in the currency of the country requesting payment. Second, the amounts presented for conversion are limited to those acquired through current transactions. Amounts acquired through capital transactions are not covered under Article VIII, nor will any controls on capital transactions result in a violation of the convertibility of foreign-held balances in the sense defined by the Fund. Third, since Article VIII refers only to exchange restrictions, it follows that quantitative or financial barriers, such as tariffs or surcharges, export taxes, levies on transfers, export or import quotas, do not violate the convertibility of foreign-held balances according to Article VIII. 1/

The Second Amendment introduced the concept of a "freely usable currency." This is defined in Article XXX(f) as follows:

> "A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets." 2/

While it is not the purpose of this chapter to deal with legal aspects relating to the differences in definition between convertible foreign-held balances under Article VIII and the concept of a "freely usable currency" under Article XXX(f), it may be noted that from an economic standpoint a "freely usable" currency as defined may be regarded as involving a type of "convertibility" that relates closely to the importance of the currency in international transactions.

4/ (Continued from p. 4)
(ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;
(iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;
(iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(a); or
(v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

The Commentary to the Second Amendment of the Articles points out that under present circumstances these provisions would not be operative in a period of market convertibility.

1/ See Gold (1978), pp. 4-7, and pp. 26-31.

2/ It should be noted that this definition applies to the operations of the IMF and does not imply that currencies not so identified by the IMF would not be usable in practice.

Table 1 shows four entries along what may be viewed as a convertibility spectrum. It should be noted that in principle there could be an infinite number of entries relating to different gradations of convertibility. However, for illustrative purposes, the four entries indicate how the gradations of convertibility can be entered into the matrix.

Some of the concepts of convertibility are meaningful only under very special conditions. Consider, for example, the concept of limited convertibility, which, as defined above, refers to the unrestricted exchange and use of the currencies within a region. If the countries of an economic community maintain exchange restrictions of varying intensity (and, thus, have currencies with differing degrees of convertibility), the dismantling of all exchange restrictions on intra-community transactions in order to establish limited convertibility will have important implications for the overall balance of payments positions of the individual countries.

Differing degrees of convertibility of currencies, as indicated by the restrictiveness of the exchange system, in general reflect differences in the magnitude of a country's balance of payments problem. Payments imbalances, if sustained over a period, will normally result in an increasingly overvalued currency. When there is a move toward limited convertibility and all obstacles to exchange transactions within the region are removed, the community as a whole becomes effectively one market in terms of the exercise of exchange transactions. In this situation, there will be a tendency for transactors to move out of overvalued currencies into other regional currencies, the exchange rates for which reflect more accurately the underlying price relationships. Typically, the latter currencies are those of countries which have the least severe exchange restrictions; thus, these countries are under the most pressure to keep prices in line with those prevailing in world markets. The dismantling of exchange restrictions within the region will therefore be accompanied by a move into those regional currencies which display the highest degree of convertibility. In other words, the latter currencies will act as a conduit for the external transactions of the Community as a whole with negative consequences for the balance of payments of countries with weak currencies. To avoid such problems, the establishment of limited convertibility must be accompanied by the adoption, by the countries of the region acting as a group, of a uniform degree of convertibility vis-à-vis the rest of the world. To achieve this objective, countries with highly restrictive exchange systems would be expected to adopt liberalizing measures in order to achieve the degree of liberalization of the least restrictive countries. This uniform degree of convertibility can be termed "full convertibility," which would be assumed to lie somewhere between convertibility under Article VIII and total convertibility. Accordingly, when one (or more than one) country in the region is free of exchange restrictions for transactions vis-à-vis all other countries, it will be necessary for all other countries of the region likewise to attain the complete dismantlement of their exchange restrictions.

Convertibility to any degree is compatible with any form of exchange arrangements, the latter being defined as the exchange rate regime by which

Table 1. Convertibility Spectrum

	Current Transactions		Capital trans- actions	Convertible into all currencies	Convertible into some defined set of currencies
	Trade	Invisibles			
Total convertibility	n.e.r. n.t.r.	n.e.r. n.i.r.	n.r.	yes	not applicable
Article VIII convertibility	n.e.r. p.t.r.	n.e.r. p.i.r.	p.r.	not necessarily	not applicable
"Limited converti- bility"	p.e.r.1/ p.t.r.1/	p.e.r.1/ n.i.r.1/	p.r.	no	yes 2/
Total inconverti- bility	c.e.r. c.t.r.	c.e.r. c.i.r.	c.r.	no	not applicable

n.e.r. = No exchange restrictions
n.t.r. = No trade restrictions
n.i.r. = No restrictions on invisibles
p.e.r. = Possible exchange restrictions
p.t.r. = Possible trade restrictions
p.i.r. = Possible restrictions on invisibles
c.e.r. = Comprehensive exchange restrictions
c.t.r. = Comprehensive trade restrictions
c.i.r. = Comprehensive invisibles restrictions
n.r. = No restrictions
p.r. = Possible restrictions
c.r. = Comprehensive restrictions

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

the value of the home currency is determined vis-à-vis foreign currencies. There are various forms of exchange arrangements open to each country individually, viz., floating, a peg to a basket of currencies, including the special drawing right (SDR), or a peg to a particular currency. Article IV, Section 2(b) of the Fund's Articles states:

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

These various forms of exchange rate regimes would not all be available to countries entering into a monetary union. A monetary union is generally defined by two characteristics which are expected to be of a permanent nature. First, the currencies of all member countries should be fully convertible within the union. Second, a fixed exchange rate should be established between the currencies of the member countries or one currency for all union members should be issued. Table 2 shows the degree of compatibility between possible exchange arrangements for individual countries and the possible exchange arrangements under a monetary union. The monetary union has the four options outlined before, since the union would be viewed as one country by the rest of the world in terms of its exchange arrangements. These options are shown as options 3, 4, 5, and 6 in the compatibility matrix. Options 1 and 5 are closely linked since, if all currencies peg to the SDR, there would automatically be a fixed relationship between their currencies. Similarly, option 2 and option 6 are virtually identical, with some qualification. No allowance is made for differences that may arise as a result of the setting of margins around a peg. For example, if countries within the monetary union were to peg their currencies to the SDR within a margin of say, $\pm$ 2 per cent for each currency, the system would differ from that where currencies were pegged to one another with no margins and the currencies within the union were allowed simultaneously to fluctuate by 2 per cent around the SDR. Secondly, if a fixed exchange rate is established among currencies of members as a result of individual decisions to peg to the SDR or a common currency, there would be no assurance of permanence in the cross rates between those currencies.

2. Preconditions for convertibility and gradations of monetary cooperation

The process of monetary integration can be viewed as the movement from a system where each country or subset of countries within a region has its own separate currency and exchange arrangement, with differing degrees of convertibility, to a system where all countries within a region share a common currency and, consequently, a unified exchange arrangement. The move toward monetary integration should be a gradual one to ensure that the costs

Table 2. Matrix of Compatibility of Exchange Arrangements in Individual Countries and Under a Monetary Union

Individual exchange arrangements	Exchange Arrangements in a Monetary Union: Floating	Peg effective exchange rate	SDR peg	One currency peg
Floating	n.c.	n.c.	n.c.	n.c.
Peg effective exchange rate	n.c.	n.c.	n.c.	n.c.
SDR peg	n.c.	n.c.	1	n.c.
One currency peg (not common)	n.c.	n.c.	n.c.	n.c.
Common currency peg	n.c.	n.c.	n.c.	2
Peg currencies to one another at predetermined rates	3	4	5	6

Note: "n.c." means not compatible.

of such a move are minimized and the benefits maximized. As noted above, the establishment of limited convertibility will give rise to balance of payments problems unless full convertibility is established for all the currencies in the region vis-à-vis the rest of the world. Accordingly, the preconditions for monetary integration need to be carefully set. These preconditions relate essentially to the measures that need to be taken to achieve full convertibility vis-à-vis the rest of the world for the currencies of the countries that are expected to enter into a monetary union. Since, in most cases, differences in the degree of convertibility or inconvertibility of currencies in the region reflect differences in the external positions of those countries, policies would have to be geared by each country to bring about balance of payments adjustment. For the most part, in the preconditions phase there will be little need for attempts to harmonize current policies since the balance of payments problems facing each country will be different in nature and in magnitude.

The policy instruments to be used for adjustment are the traditional ones of demand and supply management, tailored to the specific circumstances of each country, and with a specific time horizon in mind. The imbalance in the external sector can be reduced by appropriate action on the exchange rate accompanied by measures to restrain the growth in demand while stimulating the growth in supply. Monetary, fiscal, incomes, and investment policies can be brought to bear upon aggregate demand and supply, depending on the circumstances and priorities of the country, in order to achieve a reasonable degree of external balance.

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

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

3. A convertibility agreement

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

One important benefit to be derived from a convertibility agreement is the long-run potential for expansion of trade. In the short and medium term, the level and nature of trade are determined primarily by the structure of production and infrastructural facilities. However, the move toward full convertibility of currencies will encourage traders to look across regional boundaries for new trading opportunities, thereby generating pressures for the development of more diversified production structures in order to meet regional demand and for the improvement of infrastructural regional facilities. Over time, these developments should contribute to an increase in intraregional trade, both relatively and in absolute terms.

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

Another likely beneficial effect of full convertibility is a diminution in the need for foreign exchange reserves. To the extent that full convertibility requires a country to maintain an exchange rate that is consistent with external balance, the need for surplus reserves to support a disequilibrium exchange rate is eliminated. 1/

1/ Some offset to the reduction may occur because of a rise in the volume of transactions.

The costs of full convertibility stem mainly from the constraints imposed on the conduct of economic policy. The flexibility of the exchange rate as a policy instrument is greatly reduced as the rate will have to be determined in light of current market conditions. For developing countries undergoing rapid structural changes, this may well be inappropriate. In this respect, a distinction can be drawn between short-run and long-run equilibrium exchange rates. While the former equilibriates the current account position of the country, the depreciation that may be involved may interfere with the investment efforts of the country and contribute to price pressures. On the other hand, the long-run equilibrium rate would provide a certain degree of stability until the investment effort had been completed--at which time the short-run exchange rate and the long-run exchange rate would coincide. This is not to imply that full convertibility runs counter to the growth objectives of member countries, but rather to indicate the need to establish an exchange rate taking into account a longer time horizon which, while probably requiring a surplus on the capital account, will work, together with the investment programs of the country, to improve the current account position of the country over the long term.

A convertibility agreement implies the long-term commitment of the participating countries not to reintroduce exchange restrictions for intra-community transactions once they have been abolished. As a result they will be obliged to adopt monetary and fiscal policies which are consistent with a sustainable degree of external balance. This, in turn, will impose certain constraints on the use of monetary and fiscal policy instruments by individual countries.

4. A partial monetary union

A partial monetary union constitutes a further stage of monetary integration in which members of the union would set fixed exchange rates between their currencies. Even though the exchange rates are declared to be fixed or irrevocable, a certain element of uncertainty would remain resulting primarily from the fact that, as long as countries issue their own separate currencies, the possibility that a country may at some time separate from the union or change its exchange rate cannot be totally ruled out. Thus, "fixed" in this context can be taken to mean that the rates will be changed only under very exceptional circumstances.

The benefits to be reaped from entering into a partial monetary union relate in large part to the reduction in the exchange rate risk relative to a convertibility agreement. Individuals will carry out their transactions taking account of the fact that the exchange rates of the currencies of the union members have been declared as fixed and are not expected to change over time. The reduction in risk will constitute a positive factor for trade both within the region and with the rest of the world, contributing to an increase in the level of capital flows, and to an improvement in the allocation of resources.

With regard to the costs involved, a partial monetary union necessarily entails a greater degree of inflexibility in the pursuit of economic policies than does a convertibility agreement. Since exchange rates are fixed, it will not be possible for member countries to follow financial policies that diverge considerably from each other since such divergence will be reflected in pressures in the external positions of the countries concerned. To the extent that an external imbalance arises in a participating country through a divergence in policies or exogenous factors, the burden of adjustment would fall more heavily on internal demand and supply management policies since the opportunity to apply the exchange rate instrument has been foregone.

Another important cost of entering into a partial monetary union relates to the regional development problems that can emerge in such a union. There are two facets to such problems. First, the least developed countries in the group might be forced to follow austere financial policies that may affect adversely investment and economic growth. Second, there might be a tendency for capital to flow to certain countries which are at a higher stage of development--characterized by a more advanced infrastructure and the presence of industries that provide external economies for any new industries. In such a case, the region might find that it is facing the problem of accelerated growth in the more developed countries of the region and stagnation or perhaps a slowdown in economic growth in the others.

The need for foreign exchange reserves for member countries could be greater for countries participating in a partial monetary union than for those in a convertibility agreement. Under a convertibility agreement, a country experiencing a balance of payments disequilibrium can use the exchange rate as one of the instruments of adjustment. By contrast, the member countries of a partial monetary union acting individually cannot freely use the exchange rate to complement other policy measures aimed at external adjustment. Thus, the adjustment might have to be effected over a longer time horizon and could require a higher level of reserves.

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

5. A full monetary union

A full monetary union entails the issuance of a single currency for all participating countries. All exchange rate risks within the union are therefore totally eliminated. Consequently, intraregional trade and intraregional capital flows would be facilitated even more than under a partial union. Likewise, the efficiency of resource allocation and economic growth would be further enhanced. In addition, no single member country would need to hold foreign exchange reserves for the purpose of financing intraregional balances. Accordingly, there might be less need for exchange reserves than under a partial union. 1/ There are, of course, various costs from the standpoint of individual countries that would accompany such a full monetary union. First, countries would be subject to a total loss of autonomy in their monetary policies. Second, the option of issuing currency for the purpose of financing a fiscal deficit by each individual country would be constrained by the requirements of the policies pursued by the central monetary authority. Third, the aforementioned problem of divergent growth rates as between countries entering the union at different levels of economic development would be aggravated even more than under the two previous analyzed arrangements. Fourth, there would be the institutional cost involved in setting up a regional monetary authority.

As in the case of a partial monetary union, it would be necesary to choose an exchange rate regime for the union as a whole. As noted in the previous section, the costs and benefits to the various countries would differ considerably and, for each country separately, would not necessarily match with the net benefit accruing to the union as a whole.

III. Institutional Arrangements in ECOWAS Countries

1. Basic data and economic policy environment

The scope for, and the optimal path toward, economic integration are determined to an important extent by the relative size of economies and, even more so, by the general orientation of countries' economic policies and the assignment and frequency of use of alternative policy instruments. This chapter investigates some of these characteristics in the context of ECOWAS.

Table 3 presents selected basic data on the overall and relative size of the member countries of ECOWAS and their external positions. There exist important differences between these countries in terms of population, physical size, and overall and per capita income, differences that not only have a bearing on the overall structure of demand but also on the potential for exportation and the general structure of foreign trade.

1/ A saving on the use of reserves for settling intraregional balances could also occur through an appropriately designed and efficiently functioning regional clearing mechanism under a convertibility agreement and a partial monetary union.

The balance of payments data shown in Table 3 indicate that almost all ECOWAS countries have experienced serious payments difficulties in recent years. The difficult payments position of many of these countries is reflected in the relatively low reserves-to-imports ratios shown in the last column of Table 3.

a. General orientation of economic policy

Significant differences between member countries of ECOWAS exist not only in their relative size, but also in their overall approach to economic policy and in their assignment and use of policy instruments, notably in the area of monetary policy. While all countries of ECOWAS have established development planning in some form, the degree of official intervention in the economic process differs appreciably from country to country. Generally, one can distinguish three approaches to planning in the Community. The first involves comprehensive planning procedures covering the entire economy, in some cases down to the level of individual enterprises. This approach is often accompanied by the prevalence of public ownership of major firms in industry, commerce and finance, as well as by the predominance of cooperative agricultural production over private production. Countries which appear to fall into this category of economies are Benin, Cape Verde, Guinea and Guinea-Bissau. Economic policy in these countries generally involves a rather heavy reliance on official intervention in the workings of market forces, notably in the form of price controls. This is also the case in Ghana where, however, the planning procedure is less comprehensive and public ownership less prevalent.

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

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

Table 3. ECOWAS: Selected Basic Data

Country	Population (In millions, 1978)	Area (1,000 square kilometers)	Gross National Product, 1978 (In U.S. dollars) Total (millions)	Per Capita	Balance of Payments 1/ Current Account (In millions of SDRs)	Current Account (As percentage of GDP) 2/	Overall balance (In millions of SDRs)	Gross official reserves (In months of imports)
Benin	3.3	113	759	230	-58.4	-9.9	-9.6	1.1
Cape Verde	0.3	4	78	260	-6.2	--	-2.0	7.8
The Gambia 3/	0.6	11	108	180	-93.9	-31.5	-28.2	1.2
Ghana	11.0	239	4,290	390	-38.5	-0.1	-88.5	4.4
Guinea	5.1	246	1,071	210	-148.0	-7.9	-101.5	1.2
Guinea-Bissau 3/	0.9	36	153	170	-40.8	--	-4.5	3.3
Ivory Coast	7.8	322	6,552	840	-756.3	-7.9	-200.0	1.1
Liberia	1.7	111	782	460	-103.8	-12.5	-25.2	0.6
Mali	6.3	1,241	756	120	-59.5	-4.8	-7.4	0.5
Mauritania	1.5	1,031	405	270	-179.0	-46.9	-27.0	3.2
Niger	5.0	1,267	1,100	220	-40.4	-2.8	13.6	5.8
Nigeria	80.6	924	45,136	560	149.0	-4.3	1,207.0	2.3
Senegal	5.4	196	1,836	340	-239.8	-10.2	-94.2	0.2
Sierra Leone	3.3	72	693	210	-87.0	-13.3	-32.2	1.4
Togo	2.4	56	768	320	-197.5	-17.1	-18.1	2.1
Upper Volta	5.6	274	896	160	-64.8	9.0	-28.0	1.7
ECOWAS	140.8	6,143	65,383	Average: 4/ 464 (309)				

Source: World Development Report, 1980, World Bank; and Recent Economic Developments reports, IMF.

1/ Data used were for 1977 in the case of Guinea-Bissau and Niger; for 1978 in the case of Benin, Cape Verde, The Gambia, Ghana, Guinea, Liberia, Mali, Mauritania, Togo, and Upper Volta; and for 1979 in the case of Ivory Coast, Nigeria, Senegal, and Sierra Leone.

2/ Average of last three years.

3/ 1979.

4/ Weighted average, arithmetic average in parentheses.

b. Monetary policy

The differences in the overall approach to economic policy making described above manifest themselves also in a differing use of, and reliance on, economic policy instruments, notably in the area of monetary policy. Generally, it can be said that countries with a non-market approach to planning rely fully on quantitative control mechanisms such as overall and sectoral credit ceilings. The former are applied primarily as a stabilization and balance of payments instrument, while the latter aim at the development objective via their influence on the allocation of financial resources available for investment. By contrast, pricing mechanisms in monetary policy such as the use of variable deposit rates and frequent adjustments in the cost of credit are very rarely employed in these countries. Both deposit rates and lending rates are generally fixed as absolute values with no margin and cannot be varied by individual financial institutions. Charges and commissions of banks are also largely fixed by the monetary authorities.

The member countries of the WAMU form a special subgroup within ECOWAS. These countries have a common currency, the CFA franc, which is issued by a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) with headquarters in Dakar, Senegal. The BCEAO has regional offices in all member countries of the WAMU. The existence of a common currency is acompanied by relative conformity in the institutional framework of the financial system in these countries, as well as in the design and use of monetary policy instruments. For the WAMU the broad objectives of monetary policy are formulated by the Council of Ministers; and within the framework of these overall objectives, the Executive Board of the BCEAO defines the exact assignment and use of various monetary policy instruments in the Union. Monetary policy encompasses in the first place the control of overall liquidity in the economies of the member countries. There are three factors which determine the amount of liquidity injected into the system: (a) the estimated development of economic activity; (b) the expected development of the balance of payments; and (c) the desired level of foreign exchange of the central bank. The most important liquidity control mechanisms are overall and sectoral credit ceilings. While the overall credit limit for the individual member countries of the WAMU is established by the Executive Board of the BCEAO, the allocation of this credit to the government, the treasury and financial institutions of each member country, as well as the allocation by sector and/or purpose, is left to the respective National Credit Committees. The statutes also provide for control of overall liquidity via adjustments in required reserve ratios. In addition to strictly quantitative controls in the form of maximum overall levels and of the allocation of credit, the BCEAO also makes use of certain pricing mechanisms to influence the overall level of liquidity and its allocation. These mechanisms include, in particular, normal and preferential rediscount rates and adjustments in deposit and lending rates. Interest rates in the official money markets within the WAMU are influenced by market forces, though the BCEAO intervenes frequently to stabilize these rates in an attempt to keep them in line with foreign rates.

On balance, therefore, the monetary policy of the WAMU may be said to consist of an intricate system of credit controls which attempt to achieve an appropriate balance between the objectives of economic stability, balance of payments equilibrium and balanced economic development. It is thus seen to respond rather flexibly to demand and to allow for a substantial degree of freedom for the working of market forces.

Though not a member of the WAMU, Mali has a similar approach to the design and execution of monetary policy as the member countries of the WAMU. Mali expects to join the WAMU after 1981 and has taken some steps to bring its monetary policy into line with that of the Union. Mauritania in many respects also follows monetary policy approaches similar to those observed in the WAMU. For control of domestic liquidity, Mauritania, in addition to implementing credit controls, often makes use of changes in liquidity ratios imposed on commercial banks.

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

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

It is clear that a great variety of approaches exists within ECOWAS as to the assignment and relative use of monetary policy instruments. Equally, it is obvious that the differences in the policy environment have an important bearing on the formation of expectations of economic agents in the various member countries of ECOWAS and, hence, influence both the direction and strength of their responses as well as the speed of adjustment.

c. Fiscal policy

Table 4 gives some broad indications of the overall approaches to fiscal policy in member countries of ECOWAS. The table reports the distribution of governments' current domestic revenue between tax revenue and nontax revenue, the distribution of government expenditure between current and capital expenditure, and the way in which governments' deficits are financed. The data in Table 4 reveal important differences between ECOWAS countries in all three of these areas of fiscal policy. For example, the reliance on nontax income as a source of government revenue ranges between 41 per cent (Guinea) and 3 per cent (Senegal). The share of capital expenditure (which, unlike current expenditure, is expected to raise a country's productive capacity in future periods) in total government expenditure is as high as 63 per cent in Nigeria while it is as low as 6 per cent in Mali. Finally, there exist important differences in the way in which ECOWAS member countries finance their fiscal deficits. While some countries rely heavily on foreign sources of finance, others depend primarily on the domestic banking system, primarily the central bank, for finance. These differences in approach have important consequences for the relative balance of payments position, the degree of domestic money creation and thus inflation, and, ultimately, for the prospects for economic growth. The large divergences in the past between approaches to fiscal policy have without doubt contributed to the observed differences in payments positions of ECOWAS countries and have thus exercised an important influence on the effective degree of convertibility of currencies in the region.

d. Financial sector size and claims on government

The size of central banks' assets relative to those of deposit money banks gives an indication of the degree to which financial intermediation is decentralized and delegated to individual financial institutions which have direct contact with savers and investors. In this regard Table 5 indicates that there exist important differences among member countries of ECOWAS. Column 3 of Table 5 indicates that the degree of the division of labor and decentralization in the financial system is most advanced in Ivory Coast and Senegal, each with a coefficient of central bank assets to deposit money bank assets of 0.30. At the other extreme are countries like Ghana and Sierra Leone with coefficients of 1.59 and 1.38, respectively, where the central bank clearly dominates the country's financial sector activities. 1/ Column 4 indicates that the relative size of the central bank is more often than not correlated with the importance of its lending to the Government in total assets. The greater the Government's reliance on the central bank for financing the fiscal deficit, the larger is the relative size of the central bank.

1/ In Cape Verde and Guinea-Bissau the central bank is also the only deposit money bank.

Table 4. ECOWAS: Government Revenue, Expenditure and Deficit Finance

(In per cent)

	Government current domestic revenue		Government expenditure		Percentage shares in the financing of the fiscal deficit		
						Domestic	
	Taxes	Nontax	Current	Capital	Foreign	Banking	Other
Benin 1/	94	6	53	47	319	-296	77
Cape Verde 1/	82	18	n.a.	n.a.	78	22	0
The Gambia 2/	67	33	47	53	77	23	0
Ghana 2/	90	10	80	20	4	77	19
Guinea 1/	59	41	54	46	-1	101	0
Guinea-Bissau 1/	61	39	75	25	79	24	-3
Ivory Coast 1/	67	33	54	46	114	-22	8
Liberia 2/	89	11	44	56	43	37	20
Mali 1/	93	7	94	6	54	23	23
Mauritania 1/	65	35	92	8	95	-6	11
Niger 2/	83	17	68	32	n.a.	137	-37
Nigeria 2/	74	26	37	63	56	13	31
Senegal 2/	97	3	88	12	-85	110	75
Sierra Leone 2/	92	8	56	44	51	46	3
Togo 1/	96	4	54	46	15	25	60
Upper Volta 1/	89	11	87	13	0	247	-147

Source: Recent Economic Developments reports, IMF.

1/ 1978.
2/ 1977/78.

Table 5. ECOWAS: Relative Size of Central Bank and Importance of its Net Claims on Government

(In millions of national currency units and per cent)

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

Sources: IMF, International Financial Statistics and Recent Economic Development reports for respective countries.

1/ Data are those of September 1979.
2/ Data are those of December 1979.
3/ Data are those of December 1978.
4/ The central bank is also only deposit money bank.
5/ Combined net claims on government and state enterprises.
* Estimate.

Another indicator of the diversity of the financial systems in ECOWAS is the percentage of central banks' net claims on Government as a percentage of the financial system's total net claims on Government. In countries with only one combined central and commercial bank (Cape Verde and Guinea-Bissau) the financial system is essentially formed by this bank alone and, hence, the percentage is equal to 100 per cent. 1/ In all other countries the Government's domestic credit needs are also partly satisfied by deposit money banks. Column 5 of Table 5 indicates that in the majority of member countries of ECOWAS the central bank meets more than one half of the domestic credit needs of the Government.

e. Money and capital markets

As might be expected in countries at the stage of development of the member countries of ECOWAS, formal money and capital markets are either absent or are at a relatively early stage. Official money markets exist only in the member countries of the WAMU and in Nigeria. Money markets in the WAMU are organized by the central bank and function at two levels, firstly, at the level of the principal agencies of the BCEAO in each country, and secondly, at the level of the Union as a whole, i.e., at the BCEAO headquarters. Operations cover day-to-day and term transactions of one and three months. Interest rates generally follow those in foreign markets, notably in France. Money market operations take place in each of the member countries of the WAMU but are clearly concentrated in Ivory Coast and Senegal.

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

Stock exchange facilities exist only in Nigeria and Ivory Coast. In Nigeria the stock exchange has a history of almost 20 years. Since the early 1970s, and particularly after the oil boom, activity has picked up considerably because the stock exchange benefitted from the high rates of return on shares which compared favorably with rates on other financial assets.

Activity on the stock exchange of the Ivory Coast has expanded appreciably since its establishment in April 1976. Transactions on the Abidjan stock exchange cover the initial offering of bonds and shares as well as secondary market activities in these assets.

1/ In Benin the percentage is also 100 per cent since in 1979 there was no lending by deposit money banks to the Government.

In Ghana the National Trust Holding Company performs on a very limited scale certain functions of a stockbroker and dealer. However, no formal arrangements have so far emerged.

2. Exchange and trade arrangements

The restrictiveness of a country's exchange system is the most important indicator of the degree of convertibility the authorities of a country permit its currency. The appendix to this report provides a full description of the exchange systems of the member countries of ECOWAS and details the exchange restrictions that are imposed on various types of foreign exchange transactions. An analysis of these exchange systems reveals large differences between the individual member countries as to the overall scope and stringency of exchange controls and restrictions. At the one extreme is Ghana where essentially all foreign exchange transactions, both current and capital, are subject to controls by the monetary authority, where large payments arrears exist and where the majority of foreign exchange transactions is subject to quantitative restrictions of one sort or another. A detailed foreign exchange budget is established annually and revised throughout the year as new information becomes available. Only most urgently needed imports attain a high priority in the plan and can count on the availability of foreign exchange; the importation of all other goods has to reckon with at least occasional quantitative restrictions or delays in the allocation of foreign exchange. Exchange controls and restrictions in Guinea and Guinea-Bissau, although not as stringent as those in Ghana, are nevertheless comprehensive. Both countries are also incurring payments arrears. The existence of the tight exchange controls and the prevalence of exchange restrictions in all three countries, as well as in Sierra Leone and Mauritania, which also have payments arrears, are evidence of the inconvertibility of the currencies of these countries.

The Gambia, the Operations Account countries within ECOWAS, i.e., the WAMU countries and Mali, and Liberia maintain more liberal exchange systems and a have higher degree of currency convertibility than the countries mentioned in the previous paragraph. While the Gambian dalasi cannot yet be considered de facto convertible at present, the exchange system of The Gambia is relatively free of exchange controls and restrictions. The convertibility into the French franc of the currencies of the Operations Account countries within ECOWAS, the CFA franc and the Mali franc, is assured by France under an agreement concluded between France and these countries. The guarantee holds, however, only within the limits of the Operations Account and is linked to the meeting of certain policy requirements agreed upon between these countries and France. The system of exchange controls and restrictions in these countries displays the features of a formally convertible currency system at least as far as current and capital transactions with France, Monaco, and other Operations Account countries are concerned. However, exchange controls are applied to transactions to other countries.

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

3. Tariff liberalization

In the Treaty of the Economic Community of West African States, dealing with the Aims of the Community, 1/ Article 2 stipulates in subsection 2:

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

In the Treaty's Chapter III on Customs and Trade Matters these general aims of the Treaty are explained in a detailed and programmatic form. Article 12 calls for a progressive establishment of a Customs Union among the Member States and the establishment of a common customs tariff in respect of all goods imported from third countries. Article 13 develops a phased program for the elimination of internal customs duties and similar charges on products originating from Member States as well as of quantitative restrictions on community goods. 2/ Article 13, Section 2 envisages a duty standstill period of two years after the entry into force of the Treaty. During this period Member States are expected to abstain from imposing any new duties or raise existing ones but are not yet required to reduce or eliminate existing duties. Upon the expiry of the duty standstill period Member States are expected to progressively reduce and ultimately eliminate all intra-Community import duties within an eight-year period. Article 14 of the Treaty envisages the establishment of a common external tariff over a period of five years following the ten-year period during which internal tariffs are planned to be eliminated.

The program for trade liberalization as laid down in Chapter III of the Treaty is a rather ambitious one, given the marked differences in the importance and structure of tariffs and quantitative restrictions which existed between the member countries of ECOWAS before the entry into force of the Treaty. Table 6 gives an indication of the importance of customs duties in ECOWAS countries as a share in their foreign trade and GDP as well as their share in total government revenue. Average customs duties levied on trade are very low in Mauritania and Liberia as witnessed by the shares of 3.9 and 4.3 of customs receipts in total trade. By contrast, the shares attain their highest levels of 21.7 and 17.2 in Upper Volta and Benin, respectively, while their average level for all other countries stands at 11.0 per cent.

1/ Signed in Lagos on May 28, 1975.
2/ As defined by Article 18 of the Treaty.

Table 6. Reliance on Indirect Taxation in ECOWAS Countries 1/

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

Sources: Statistical and Economic Information Bulletin for Africa No. 9 U.N. E/CN.14/SEIB.9; International Financial Statistics, IMF, January 1978. Table adapted from Table 1 of preliminary report on Trade Liberalization Options and Issues for the ECOWAS, ECOWAS, ECW/TRAD/II Lagos, January 1979.

1/ Most data are for 1973.
2/ Excluding grants and loans received.
3/ 1972 data.
4/ Estimates.
n = negligible. -- = not available.

There are also large variations in the degree of dependence of ECOWAS countries on customs duties as a source of government income. In The Gambia more than 50 per cent of total government revenue in 1973 originated from customs duties. While somewhat less in Benin (49 per cent), Upper Volta (47 per cent), Sierra Leone (37 per cent), and Ivory Coast (35 per cent), customs duties nevertheless constituted a very important source of income for the governments of these countries. By contrast, the governments of Cape Verde (8 per cent) and Niger (16 per cent) depended only to a rather limited extent on trade-related revenues. It is obvious that under these circumstances the elimination of intra-Community tariffs and, in particular, any leveling of external tariffs will have significantly different economic implications for these countries and will lead to a different preparedness of countries to implement the trade liberalization measures envisaged in the Treaty; this, despite the fact that the Treaty's Article 25 makes provisions for a compensation for loss of revenue due to tariff liberalization.

Further complications in the move toward a customs union derive from the simultaneous adherence of member countries of ECOWAS to various other regional organizations or groupings which also, for their respective member countries, aim at an elimination of tariffs on trade and sometimes even call for the granting of preferential treatment in their trade. Examples of such arrangements are (a) the Treaty of Abidjan (1973) establishing the West African Economic Community with Ivory Coast, Mali, Mauritania, Niger, Senegal, and Upper Volta as signatories; (b) the Mano River Union (1973) signed by Liberia and Sierra Leone; 1/ and (c) the Cape Verde/Guinea-Bissau Free Trade Area (1976). In addition to these formal treaties a number of bilateral arrangements on trade still exist within the Community.

Given the important differences in the level and structure of customs duties in the Community and the complicating factor of adherence to more than one regional organization with a separate trade agreement by a number of countries, it is not surprising that the member countries of ECOWAS did not immediately start with the implementation of the phased program envisaged in the Treaty. In fact, the two-year duty standstill period envisaged under Article 13 did not become officially operative until May 1979. However, in May 1980, at a meeting in Lome, Togo, the Conference of ECOWAS Heads of State decided to start the second phase of the program for an elimination of intra-Community customs duties and quantitative restrictions in May 1981 and with the view of completing it by 1989.

1/ Since October 1980, also includes Guinea.

IV. Trade Patterns in ECOWAS Countries

1. The direction of intraregional recorded trade

Table 7 shows that the level of exports and imports and the relative importance of various ECOWAS countries in overall regional trade vary widely. By far the largest importer and exporter in the region is Nigeria. The latest data available 1/ indicate that Nigeria accounted for about two thirds of both total imports to and exports from the region. By contrast, Cape Verde accounted for about 0.01 per cent of total exports and about 0.26 per cent of total imports. Between these two extremes, most countries in the region have exports and imports that range between 1 and 3 per cent of total exports and imports, respectively. Ivory Coast, Ghana, and Senegal stand out. The Ivory Coast was the next highest exporter and importer after Nigeria, accounting for over 15 and over 10 per cent of total exports and imports, respectively. Ghana's exports and imports accounted for about 6 and 5 per cent of the respective totals. Senegal's exports and imports were slightly above 4 per cent.

Intraregional trade is relatively low, accounting for less than 3 per cent of exports and of imports. Data for intraregional trade include re-exports of imports from outside the region. On the side of exports, this average, however, conceals a wide range of variation between the ECOWAS member countries. About 17 per cent of Senegal's exports are directed to other ECOWAS member countries. Cape Verde and Mali each export about 10 per cent of their exports to other ECOWAS member countries. The member countries' exports to the region range between 1 and 4 per cent, with Guinea having the lowest percentage (about 0.2 per cent). It should be noted that, because of the heavy weight of Nigeria in the total and because its exports to the region are relatively low (about 2 per cent), the average level of intra-regional exports would rise to about 4.5 per cent if Nigeria's exports to the region are excluded while retaining the exports of other countries to Nigeria.

Some interesting patterns emerge from the data on export flows within the region presented in Table 8. First, the percentage of exports from the WAMU countries within the ECOWAS region is, with the exception of Niger and Upper Volta, above the average for the region. Among these, Senegal with 17 per cent is considerably above any other country in the region. Second, the main regional export markets of the WAMU countries are principally outside the WAMU countries. The exception is the Ivory Coast, with over half its exports in the region going to other WAMU countries. Third, the traditional ties with the former metropolitan countries reflected in the common language for a number of ECOWAS countries affect the pattern of exports within the region. For instance, Portuguese-speaking Cape Verde exports almost exclusively to Guinea-Bissau where Portuguese is also the official language, and vice versa. Among the French-speaking countries, the Ivory Coast, Mali, Senegal, and Togo have their exports largely concentrated in other French-speaking countries in the region. Benin, Guinea, Niger, and Upper Volta

1/ The data referred to are for 1977 for most countries. In a few cases, 1976 and 1978 data have been used.

Table 7. Trade Patterns in ECOWAS Region 1/

(In per cent)

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

Sources: Data provided by the authorities of ECOWAS countries; IMF, Direction of Trade and Recent Economic Developments reports; and staff estimates. Export data were extrapolated from estimates of partners' import data. Data from differing sources do not always coincide. Accordingly, the data presented should be viewed as illustrative only.

1/ Data for Benin, Ivory Coast, Nigeria, and Togo, refer to 1978; for Niger, 1976 data were used; for other countries, 1977 data were used.
2/ Petroleum exports account for nearly 91 per cent.
3/ Excludes, in the case of exports, Nigeria's exports to the region and, in the case of imports, Nigeria's imports from the region.

Table 8. ECOWAS: Direction of Regional Exports 1/

(In per cent of total exports)

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

Sources: Extrapolated from Table 3 using data provided by the authorities; IMF, Direction of Trade and Recent Economic Developments reports; and staff estimates. Because of the wide discrepancy in data from various sources, the above percentages should be viewed as illustrative only.

1/ Unless otherwise indicated, data relate to 1977.
2/ Data relate to 1978.
3/ Data relate to 1976.

do not conform to this pattern. For the English-speaking countries, The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone, there is a concentration of exports in the region with each other. Fourth, only two countries in the region, Ivory Coast and Senegal, have a fairly diversified regional export profile. Fifth, Mauritania is the only country that does not have any significant recorded exports to the region.

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

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

A few generalizations can be made regarding the regional import profiles displayed in Table 9. However, these generalizations do not all coincide with those made about exports. First, for the WAMU countries, other than the Ivory Coast, the percentage of imports from all ECOWAS countries is above the average for the region. Upper Volta and Senegal stand out from the group with about 16 per cent and 7 per cent, respectively. Nevertheless, these percentages are lower than those for Sierra Leone and Mali. Second, most of the regional imports of the member countries of the WAMU represent imports from other WAMU countries. Third, there is some tendency for the pattern of regional imports to be affected by the language of the countries in the region, but this pattern is far less marked than in the case of the export profiles. Fourth, ECOWAS countries' imports from within the region are primarily from only a few selected member countries of ECOWAS. The regional import profiles are, thus, generally not diversified. Fifth, Mauritania, while not being a significant exporter to any country in the region, does report sizable imports from Senegal, Liberia, and the Ivory Coast.

The overall import profile reveals the heavy dependence of the ECOWAS countries on trade with Europe. Almost two thirds of the imports of these countries are from Europe. For most of the French-speaking countries, about one third of their imports originates in France. For the two Portuguese-speaking countries, over 40 per cent of their imports originates in Portugal. The English-speaking countries, The Gambia, Nigeria, and Sierra Leone, obtain about a quarter of their imports from the United Kingdom, while Liberia obtains about the same proportion from the United States.

Table 9. ECOWAS: Direction of Imports 1/

(In per cent)

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

Sources: Data provided by the authorities; IMF, Direction of Trade and Recent Economic Developments reports; and staff estimates.

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

2. Composition of recorded trade

For most countries in the region, overall exports are heavily concentrated on a few agricultural commodities and minerals. A brief overview for each country can give a general idea of the nature of exports from the region. Benin's export proceeds are primarily derived from palm products, cotton fiber and seeds, and cocoa beans. Cape Verde exports primarily salt, fish and shrimp, canned fish, and bananas. The Gambia depends heavily on groundnut products. Ghana's major export commodity is cocoa, with timber, aluminum, and gold making a marginal contribution. Guinea's export receipts are almost exclusively from mineral exports--bauxite and alumina. Guinea-Bissau depends for most of its export proceeds on groundnuts and palm products. The export proceeds of the Ivory Coast are heavily dependent on coffee beans, cocoa beans, and timber. Over one half of Liberia's export proceeds are derived from iron ore; rubber, diamonds, and logs and timber, together with such agricultural products as coffee, cocoa, and palm products, account for the rest. Mali derives about one half of its export proceeds from cotton and the rest mainly from groundnuts, cereals, and livestock. Iron ore and fish account almost exclusively for the foreign export receipts in Mauritania. Uranium concentrate accounts for most of Niger's export proceeds. Other major exports include livestock, groundnuts, cotton lint and seed, and vegetables. Nigeria depends on its oil exports almost exclusively (over 90 per cent) as a source of its export foreign exchange proceeds. Senegal exports mainly groundnuts and related products, phosphates and fertilizers, as well as fish, shellfish, and related products; it is one of the few countries of the region to export industrial products as a significant proportion of total exports (about 19 per cent). Almost two thirds of Sierra Leone's exports are minerals, mainly diamonds, and the rest are primarily agricultural commodities, such as coffee, cocoa, and processed palm kernels. The three major commodities accounting for most of Togo's export proceeds are phosphates, cocoa, and coffee. Upper Volta earns about one third of its export proceeds from livestock products, another third from cotton lint, and smaller proportions from sheanut products, other oil seeds, vegetables and fruits.

Import commodities are not specifically identified in view of their variety. However, for all the countries in the region, imports consist of foodstuffs, beverages and tobacco, durable consumer goods, intermediate goods, capital goods and, with few exceptions, petroleum products. The origin of these products, as is clear from Table 9, is primarily in the industrial countries.

3. Factors affecting the level of intraregional trade

Given the geographical proximity of the countries in the region, the extent of intraregional trade is extremely low. Two sets of factors can be considered. Factors that currently impede intraregional trade include the noncomplementary production structures of the member countries of ECOWAS, the transportation problems within the region, and the lack of adequate communication facilities. The second set of factors consists of those that would assume increasing importance as obstacles to trade once the first subset of obstacles is alleviated. These include trade barriers (such as tariffs and quantitative restrictions), problems of currency convertibility, as well as the dearth of organized centers of information on the availability of products in other countries in the region.

Perhaps the most important determinant of the low level of intraregional trade is the profile of production of the economies of the member countries of ECOWAS. As noted in the previous section, there is a heavy concentration in most of these countries in the production of primary agricultural products and mineral products. Although most of them have small-scale industries, the production of such industries is geared primarily to satisfying local consumption needs. Import demand in the countries of the region is primarily for processed foodstuffs, durable consumer goods, intermediate goods, and capital goods--most of which can only be supplied at present by the industrialized countries.

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

Inadequate communications facilities also play a significant role as an obstacle to intraregional trade. Telephone communications within the region often have to be channeled through third countries. Besides being difficult to make, intraregional communications are generally extremely expensive. The telegraph and telex network within the region suffers from reliability problems and high costs, while mail is subject to inordinate delays. Accordingly, placing orders within the region and following up on such orders can be costly and time consuming.

As these major obstacles to intraregional trade are alleviated, the second subset will assume more importance. Trade barriers such as tariffs, export taxes and quantitative restrictions, need to be eliminated for intraregional transactions. At present, however, most ECOWAS member countries depend heavily on customs receipts for government revenue. This, together with a desire to protect domestic industries, results in an inordinately high level of tariffs. In most ECOWAS member countries, no distinction in tariff application is made in favor of imports from other ECOWAS member countries. Accordingly, the current tariff structure does not appear to provide any special incentive to import from countries in the region. 1/

The inconvertibility of a number of the currencies in the region also acts as a deterrent to trade. To some extent, the West African Clearing House (WACH) has provided an avenue for the usability of local currencies

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1/ ECOWAS has plans to eliminate all intraregional tariffs by 1989.

in intraregional trade, but this institution has faced a number of problems (as discussed in Chapter V below). To the extent that other more important obstacles to intraregional trade are removed, the full convertibility of the regional currencies or the expansion and improvement in the efficacy of the role played by the WACH would become more important factors in facilitating intraregional trade.

Lastly, most countries within the region do not have access to adequate information regarding the availability of products originating in other countries in the region. As other bottlenecks are removed and as goods commence to flow to other countries in the region, increasing importance will be attached to the dissemination of information regarding the availability of locally produced goods.

4. Unrecorded trade

There is no reliable information on the pattern of unrecorded trade within ECOWAS, although it is generally acknowledged that unrecorded border trade is of considerable importance. There are a number of reasons for the existence of this trade. First, national boundaries have in certain instances been drawn across traditional boundaries and residents in such areas have continued their traditional trading patterns. Second, there are variations in the availability of goods in the various countries resulting from differences in the restrictiveness of the exchange and trade systems. Consequently, there has been a tendency to take across borders primary goods from countries with highly restrictive systems to be traded for goods from industrial countries available in countries with more liberal trade systems. Third, considerable differentials in prices of certain goods, resulting either from differing inflation rates, from disequilibrium exchange rates, from different tariff levels, or from varying degrees of subsidies, have provided continuing incentives for border trade.

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

5. Potential for trade

The extent to which intraregional trade develops over the years will depend in large measure on the alleviation of the current factors limiting intraregional trade. The major deterrent to trade--the noncomplementary production profiles--can only be overcome by a carefully designed and coordinated regional investment strategy aimed at developing complementary industries.

There is, however, some scope for increasing intraregional trade over the short or medium term on the basis of existing industries. A recent study has identified such goods as being largely semiprocessed and light industrial products. 1/ These include beverages, confectionary, chalks, salt, cosmetics, pharmaceuticals, chicken feed, dried fish, pepper, ginger, nails, kola nuts, manufactured tobacco, meat, ceramics, footwear, timber, wood products, textiles, cement, crude oil, refined oil, aluminum sheets, electrical appliances, razor blades, matches, candles, bicycles, fruits and vegetables, and assorted chemical products.

Another study 2/ examined the recent production levels of a selected group of light industrial products and the demand for such products in the region with a view to determining the extent to which the production of such goods could be stepped up to satisfy regional demand. The study covered 13 products. These were automobile batteries, dry batteries, bicycles, ceramic tiles, sanitary ware, electric light bulbs, electric plugs and sockets, glass containers, flat glass, disposable hypodermic syringes, ceramic tableware, plastic tableware, and telephone handsets. These products were identified as areas in which production for intra-regional trade could be easily expanded.

V. Payments Arrangements for Intraregional Trade

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

Apart from settlements which are made via official financial institutions, a significant proportion of settlements for trade transactions takes place outside the official financial sector. This applies in particular to unofficial, unrecorded border trade where settlement is made directly in cash. In some cases, however, border trade is of the barter variety and does not involve a financial transaction. Where payments and exchange transactions are necessary they are frequently made in parallel markets either in a convertible currency or in the currency which is the more convertible one of the two trading partners' home currencies. The less convertible currency is also occasionally accepted but at a substantial discount. In addition to illegal border trade, legal border trade generally

1/ UNCTAD, Economic Commission for West Africa, A Study of Recorded Trade Flows (1978).

2/ International Trade Center, UNCTAD/GATT, The Profiles and Potential of External Trade of Members of the Economic Community of West African States (1978).

avoids clearing via official financial institutions. The reason for this type of arrangement is usually the unfamiliarity of (mostly small) traders with the methods and requirements of the official financial system.

1. Clearing at the level of banks

a. Arrangements among central banks of ECOWAS

Within ECOWAS there are two types of payments arrangements between central banks. The first involves bilateral payments agreements such as that between Cape Verde and Guinea-Bissau. Under this agreement all payments between the two countries are settled through clearing accounts maintained in the respective central banks. 1/ Special arrangements are applied for oil imports by ECOWAS member countries from Nigeria. These arrangements mostly amount to an outright credit granted by the Central Bank of Nigeria to central banks of other ECOWAS countries, usually under commercial terms. Only in a few cases does a direct clearing of oil payments against payments for other transactions appear to take place. Settlement of net debits is usually made in convertible currencies.

b. Arrangements among commercial banks

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

The second type of arrangement for settlements of regional payments by commercial banks occurs via commercial banks in major financial centers in Europe, notably London and Paris, and the United States. Such settlements may involve up to four banks, two in the member countries of ECOWAS and two in financial centers. In an illustrative transaction, the paying bank in an ECOWAS country makes payment to a correspondent bank in Europe or the United States in foreign exchange acquired from the central bank or held in an own account in the respective foreign correspondent bank. The second step involves the transfer in Europe or the United States of the payment by the foreign correspondent bank of the paying bank to a foreign correspondent bank of the receiving bank in an ECOWAS country. On occasion, the correspondent banks are the same for the paying and the receiving bank in the two ECOWAS countries involved in the transaction, in

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1/ Note, however, that in these two countries the central banks are also the only commercial banks.

which case the transfer is effected within the first foreign correspondent bank by a simple debiting and crediting of accounts held within the bank. The final step is the transfer by the foreign correspondent bank of the payment to the receiving bank in an ECOWAS country, its (usual) conversion into local currency and the making of the payment to the ultimate beneficiary.

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

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

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

A final aspect working in favor of indirect settlements via foreign banks is the convenience factor derived from well-known procedures of payments mechanisms and the often personal knowledge of bankers "at the other end." The language factor also plays a role as far as transactions between countries with two different languages are concerned.

On balance then, most banks appear to have a preference for the indirect clearing of regional payments via correspondent banks in Europe and the United States primarily on account of its alleged greater cost and time efficiency and because of its generally greater convenience.

2. The West African Clearing House

a. General features of the system

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

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

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

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

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

Article III states that all central banks and monetary authorities in the subregion can become members of the WACH. In fact, since the inception of the WACH three more countries have joined the clearing agreement; they are Guinea, Guinea-Bissau, and Mauritania. This leaves Cape Verde as the only member country of ECOWAS which is not simultaneously a participant in the WACH.

Articles VII and VIII of the Articles of Agreement of the WACH outline in more detail the way in which the general objectives of the clearing mechanism, especially those stated in subsections (a) and (b) of Article II, § 2 are to be achieved. Article VII makes reference to a common unit of account, to parities, and to exchange guarantees, and Article VIII addresses itself to credits, transactions, and exceptions in the clearing mechanism.

1/ Benin, The Gambia, Ghana, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta.

Given the large number of currencies of the countries belonging to the WACH and the diversity of the exchange arrangements involved, it was imperative that a stable unit of account be introduced if the clearing system was to succeed in increasing the use of regional currencies in the settlement of intra-Community trade. The unit chosen for this purpose was the West African Unit of Account (WAUA) which is equivalent in value to one Special Drawing Right (SDR) of the International Monetary Fund which, because of its composition, has enabled the WAUA to maintain relative stability.

The choice of the WAUA as the unit of account necessitates the establishment on a daily basis of the rate of exchange for the currency of each member bank of the WACH in terms of the WAUA. This requires, first, the determination of the central rate of each currency in terms of its intervention currency, and, second, a conversion rate for the currency in terms of the SDR via the intervention currency's rate in terms of the SDR. In order to minimize fluctuations in rates used for clearing operations, and in order to reduce the administrative burden and the costs of operations, two rate determination periods are distinguished within each month for which only two official exchange rates are established for each currency. The first determination period covers the period from the 1st to the 15th day of the month, the second the period from the 16th to the end of the month. Within each determination period the average of the daily rates is calculated and then applied as the official rate to all settlements in the following determination period.

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

Given the establishment of an artificial unit of account the smooth operation of the system is dependent upon the guarantee by central banks of member countries to convert freely their own currencies into the WAUA for all eligible transactions. With their signature under the Agreement all central banks of member countries of the WACH have accepted this obligation and have thereby largely eliminated the inconvertibility of regional currencies, at least for eligible transactions.

According to Article VIII, Section 3 of the WACH agreement all current account transactions, i.e., goods, services, income and unrequited transfers, are eligible for clearing through the WACH, with the exception of (a) those specified by the Exchange and Clearing Committee, 1/ and (b) payments relating to trade in goods not originating in the territory of a member country, i.e., goods from third countries. 2/ Furthermore, trade transactions between member countries of the WAMU and between Mali and the WAMU are exempted from the need to settle via the WACH. So far also payments for oil from Nigeria have been settled outside the arrangements of the WACH.

Article VIII, Section 9 of the WACH provides that a settlement of net credit and debit positions take place at the end of each month. Within each month the central banks of member countries are notified by the WACH on a weekly basis of their current net position. A settlement before the normal settlement date at the end of each month takes place if the debtor position of any central bank should exceed the maximum credit level of 10 per cent of the average total value of trade (imports plus exports) with other member countries of the WACH over the three years preceding the year of the calculation. The net extension of credit by a creditor country is limited to 20 per cent of its total trade as defined above. The limits can be exceeded if agreement is reached between the central banks involved in the net creditor/debtor relationship. Settlement of net balances takes place in convertible currencies agreed upon between the central banks concerned and involved in the past notably U.S. dollars, pound sterling, French francs, Swiss francs and deutsche mark. Settlement of debts has to be effected within five working days after the receipt by the debtor bank of the notification of its position vis-à-vis creditor banks. However, with the agreement of the creditor bank a debtor bank can delay the settlement of its debt, in which case it will have to pay an interest at a rate determined by the Exchange and Clearing Committee of the WACH.

The clearing process of transactions channeled through the WACH occurs at three levels; the first is at the level of commercial banks, which deal with the original payer and the ultimate payee; the second is at the level of central banks which receive from, and make payments to the commercial banks; and the last level is that of the WACH which credits and debits the participating central banks in accordance with notifications given to it by the central banks. The official clearing procedure distinguishes between the case of effecting a straight payment order and the case in which a letter of credit is involved.

1/ The Exchange and Clearing Committee of the WACH comprises at least two representatives of each member central bank and meets at least twice every year.

2/ The WACH has no means of verifying the origin of goods for which payments are channeled through its clearing mechanism. It is reported that in trade between certain countries of the region the majority of goods originates in third countries.

For the case of a payment order, except those in respect of letter of credit, the clearing procedure is described by the following steps and the related Flow Chart 1: 1/

1. A resident in an exporter country (to be called country A) sends goods or renders services to an importer in country B.

2. The importer in country B makes payment for the goods or services to his commercial bank in country B for transmission to the exporter.

3. The same importer in country B will advise the exporter in country A that he has made payments to his commercial bank in country B for remittance to the exporter in country A. For other remittances which do not involve goods and services, e.g., remittances for educational purposes, the payer will also advise the beneficiary (payee).

4. The commercial bank in country B sends a transfer or payment order to the central bank in country B having deposited the funds collected.

5. The central bank in country B will advise the central bank in country A of the amount in WAUA to be paid to the named beneficiary in country A, through his commercial bank.

6. The central bank in country B will at the same time inform the West African Clearing House of the amount to be paid to the central bank in country A in WAUA.

7. The West African Clearing House will debit the account of the central bank in country B and credit the account of the central bank in country A, advising it accordingly.

8. The central bank in country A will pay the commercial bank of the beneficiary in country A the amount it had been advised by the central bank in country B as having received for the beneficiary in country A.

9. The commercial bank in country A will pay accordingly the amount received to the beneficiary in country A.

1/ Source: West African Clearing House.

For the case involving a letter of credit the clearing procedure is described by the following steps and the related Flow Chart 2: 1/

1. An exporter in country A (which is the exporting country) sends goods or renders services to an importer in country B (which is the importing country).

2. The exporter presents his documents to his commercial bank in country A.

3. If the documents are in order, the commercial bank in country A will pay the exporter immediately.

4. The commercial bank in country A will then forward the documents to the commercial bank in country B that opened the credit asking for a refund.

5. The commercial bank in country A will at the same time advise the central bank in country A of the claim it is making on the commercial bank in country B in respect of payments made under Letters of Credit.

6. The importer in country B will on the request of the commercial bank in country B pay the amount due for the goods or services it has received.

7. The commercial bank in country B will on receipt of payment from the importer release the documents in respect of the goods or services to the importer.

8. The commercial bank in country B will pay to the central bank in country B the amount it has collected from the importer.

9. The central bank in country B will advise the central bank in Country A of the amount in WAUA it has received for the exporter in country A.

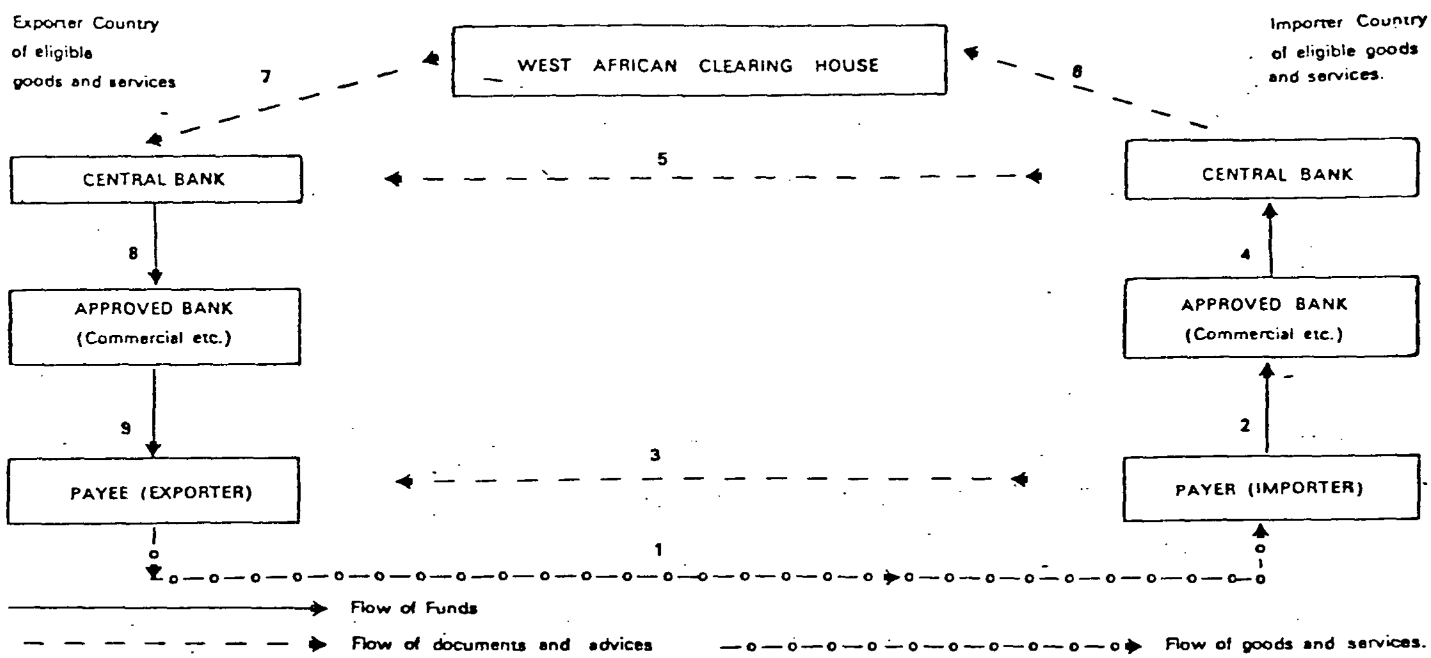
10. The central bank in country B will at the same time advise the West African Clearing House of the amount it has received requesting for its account to be debited and the account of the central bank in country A to be credited.

11. The West African Clearing House will debit the account of the central bank of country B (which is the importing country) and credit the account of the central bank of country A (which is the exporting country) advising the central bank in country A accordingly.

1/ Source: West African Clearing House.

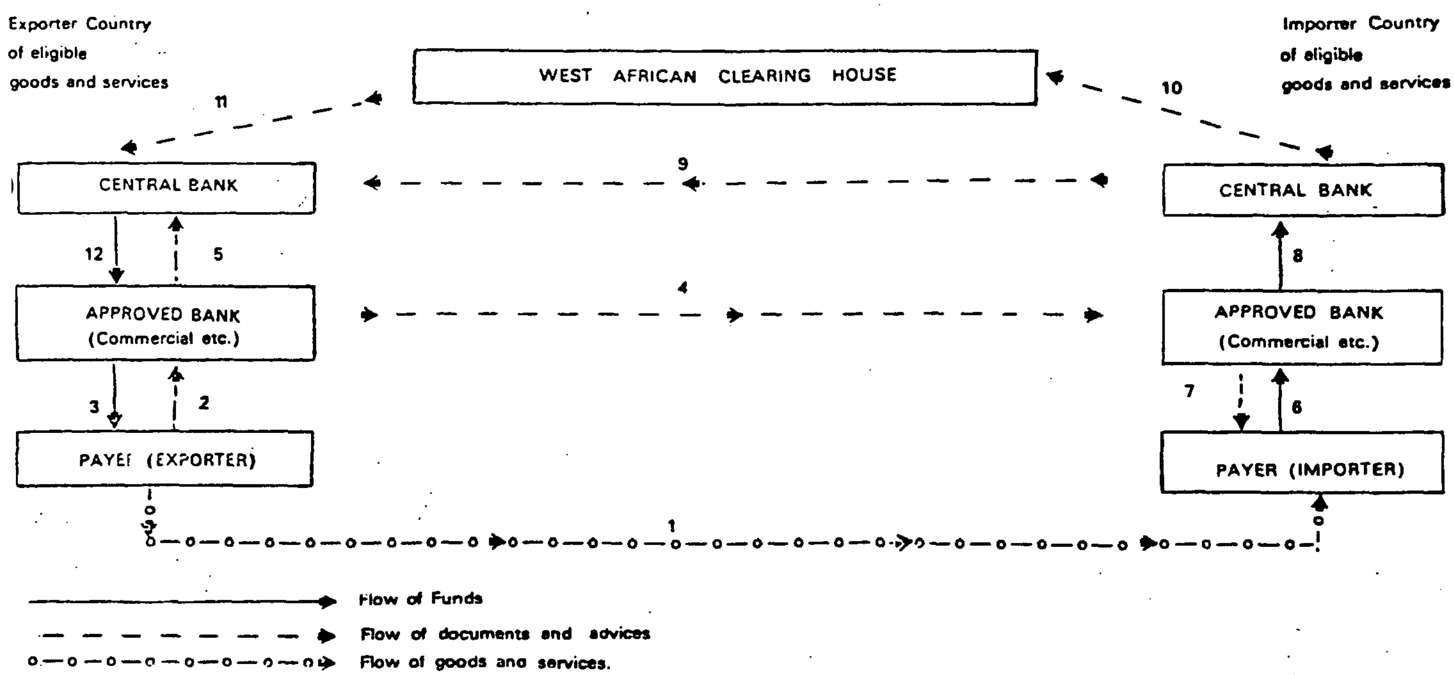
Flow Chart 1

WEST AFRICAN CLEARING HOUSE
CLEARING PROCEDURE FOR ALL PAYMENTS
(EXCEPT IN RESPECT OF LETTERS OF CREDIT)



Flow Chart 2

WEST AFRICAN CLEARING HOUSE
CLEARING PROCEDURE FOR PAYMENTS UNDER LETTERS OF CREDIT



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

Table 10 provides data on transactions through the WACH from the beginning of its operations in 1976 to the second half of 1978. Transactions channeled through the WACH have shown an upward but uneven trend. Since reliable data on intra-Community trade during the periods covered by Table 10 were not available it was not possible to calculate the percentage of that trade channeled through the WACH. There are indications, however, that some countries such as Ghana and Guinea have channeled an increasing percentage of their payments for regional trade and transfers through the WACH while others, notably the member countries of the WAMU, have shown a certain reluctance to do so. On balance, there has probably been a slight increase in the percentage of regional payments channeled through the WACH.

Line 3 of Table 10 gives the amounts cleared in the WACH, i.e. those settlements of regional transactions which do not necessitate a transfer of foreign exchange (i.e., convertible currencies) from one central bank to another. As such these figures are an indicator of the reduction of the flow demand for foreign exchange by the central banks participating in the WACH. Lines 4 and 5 indicate that, as a percentage of transactions, this reduction in foreign exchange needs has varied substantially over the period under consideration. Until mid-1978 there appears to have been no noticeable upward trend in the savings of foreign exchange reserves.

b. Problems of the clearing system

Delays in payments have been the most frequently cited problem of the clearing mechanism involving the WACH. It is reported that final settlements of payments may take as long as 4-6 months and in some cases even longer. On the basis of the clearing arrangements described above delays can occur at any or all of the three levels of the clearing mechanism: the commercial bank level, the central bank level, and the level of the WACH.

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

Table 10: Operations of the West African Clearing House

(in millions of WAUA)

	1976	1977		1978	
	2nd half	1st half	2nd half	1st half	2nd half
1. Transactions channeled through WACH	18.4	27.8	17.4	22.4	29.6
2. Line 1 adjusted for financial transfers	10.9	19.0	16.0	19.0	16.7
3. Amounts cleared in WACH	4.3	6.8	6.2	7.9	6.3
4. Line 3 as per cent of line 1	23	25	36	35	21
5. Line 3 as per cent of line 2	29	36	39	41	37

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

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

At the level of the WACH, a problem encountered by some central banks is that they do not always receive promptly the applicable exchange rates of their currencies in terms of the WAUA. As a result transactions are not processed until the confirmed rates are available. This problem is generally ascribed to difficulties in communications in the region.

Delays in the clearing process appear to arise also between the three levels examined above and can therefore not be attributed to the financial institutions involved. Such delays are primarily due to the rather poor systems of communication and postal services in the region. Telephone and telex contacts are said to be effected more rapidly and efficiently via Europe than directly between member countries of the Community. This also holds, and perhaps even more so, for postal connections. As a result shipments of documents related to regional trade and other payments are observed to be extremely slow.

Aside from problems directly related to the WACH clearing mechanism and affecting its speed and efficiency, the settlement period of one month has been questioned. Countries that normally tend to be in a debtor position with their WACH partners have suggested that the settlement period is too short and that the efficiency of the clearing mechanism would be enhanced by extending the settlement period. Such an extension would of course increase the net credit extended to debtor countries within the settlement period, which at present is provided interest free.

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

VI. Currency Convertibility, Monetary Integration, and Intraregional Trade: The Views of ECOWAS Member Countries

A primary objective of the mission to selected ECOWAS members and the related Fund questionnaire was to elicit views on the prospects for attaining convertibility among the currencies of the ECOWAS countries in the short to medium term, and on the modalities by which convertibility could be achieved. Related to these central issues were questions pertaining to the significance of inconvertibility for intraregional trade and the prospects for adapting existing currency arrangements, together with longer-term problems such as the effects of convertibility on investment flows. This chapter is intended to provide a summary of these views. In addressing these subjects, representatives of individual countries emphasized that their responses were related to the technical issues involved; as such, they were not intended to prejudge the important policy questions which would need to be dealt with at a later stage.

1. Convertibility and intraregional trade

The discussions with country authorities and the Fund questionnaire dwelt at some length on the factors considered to be important in explaining the low level of intra-ECOWAS trade and focused particularly on the relationship between currency convertibility and the growth of trade within the Community. In this regard, they were intended not so much to evaluate the intrinsic features of those factors identified as obstacles to the growth of intra-ECOWAS trade but rather to determine the relative importance of these obstacles, so as to assess the significance of currency convertibility as one of a number of factors affecting the growth of trade. While several previous studies have addressed this question in some detail, 1/ the responses received by the mission provided an assessment of the relative weights attached by country authorities and others to the determinants of trade within the region and the impediments to increasing that trade.

The dominant factor inhibiting an expansion of trade within the ECOWAS region was seen to be the current production profiles in the ECOWAS countries. Underpinning those profiles as they now exist are factors of long-term economic significance. Viewed historically, the present production patterns and production capacities in these countries represent the outcome of investment flows and trends in the exploitation of resources in which trade flows have consisted, on the export side, of raw materials and other primary products destined for the markets of the industrial countries (in which the former metropolitan countries have continued to play an important, though declining role) and, on the side of imports, finished investment and consumer goods originating largely in the industrial countries. In many respects, the production profiles in many ECOWAS countries were seen to have quite competitive

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

characteristics, particularly in the field of agricultural production. While some trade within the region does take place in such commodities, usually in order to accommodate seasonal demand/supply variations, a significant expansion of trade in these goods within the Community was viewed as unlikely in the foreseeable future. In the development of manufacturing production, the emphasis in most ECOWAS countries has been, almost wholly, on the development and enhancement of import substitution industries. For this reason, trade in manufactured goods of local origin among ECOWAS countries has been low, with little prospect of any major increase in the short term, since production capacity in individual member countries is in general less than sufficient to meet domestic demand. Any appreciable improvement in prospects for the growth of intra-ECOWAS trade was therefore considered to be very much dependent on a Community-wide reorientation of investment flows in order to exploit production potential. This would need to take into account the differences that currently exist among ECOWAS countries in the level of economic development, with important implications for the structure and location of investment.

The dominance of trade between the ECOWAS countries and the developed countries in the total trade of the Community has necessitated continued attention to the efficiency of the transportation and communications systems between these two groups of countries. By contrast, transportation and communication facilities within ECOWAS have been largely neglected until recently. There was general agreement that transportation facilities in the region were inadequate for the task of handling any sizeable increase in trade volume. Special mention was made of such problems among the members of ECOWAS that are landlocked. Poor communications were viewed as another major impediment to intra-ECOWAS trade. In this respect, communications channels between individual ECOWAS countries and Europe and the United States were considered to be fully capable of handling the needs of modern-day commerce, whereas between neighboring capitals of ECOWAS countries, in some cases only a hundred or so miles apart, transactions were often delayed for inordinately long periods because of poor communications. While some improvement in the transportation and communication systems in the region had occurred over the last ten years or so, the inadequate facilities in these fields remained serious obstacles to any broad-based attempt to generate an increase in trade.

Important steps have already been taken at the Community level to establish a program of tariff harmonization among ECOWAS countries, with the aim of eventual elimination of customs tariffs within the region by 1989. These developments were thought likely to enhance prospects for intra-regional trade. Quantitative restrictions on imports of a global nature are in force in several ECOWAS countries and reflect, in part, a policy response by the authorities to deepseated balance of payments problems. In addition to the use of customs tariffs, which have as a primary purpose the generation of budgetary revenues, several countries are applying other cost restrictions on imports in the form of import deposit schemes and/or import surcharges. In general, these trade restrictions were considered by the authorities in most countries to have only a minor effect on the level of intraregional trade. Their removal of itself was thought unlikely to have much immediate effect on intra-ECOWAS trade. On the side of exports, quantitative restrictions are usually applied on only a limited time basis for reasons of supply shortages, mostly relating to commodities traded to non-ECOWAS countries.

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

2. Approaches to monetary integration

Chapter II established a framework for a graduated approach to monetary integration to culminate in the eventual attainment of a complete monetary union, by which the countries belonging to the union would share a common currency and maintain a single exchange arrangement. This scenario was accompanied by a review of the preconditions that would be needed in order to move to the first phase of the process of monetary integration. Three discrete stages of the path toward monetary integration were identified. The first stage, under which the participating countries would enter into a convertibility agreement, would enable the countries to maintain their existing currencies and exchange arrangements provided there was agreement to accept the currencies of other participating countries for all transactions within the region and to convert these currencies at exchange rates determined by cross rates vis-à-vis the reference currency or currencies in international markets. A more advanced form of monetary integration would occur under a partial monetary union in which, consistent with the terms of the convertibility agreement, exchange rates for currencies of the participating countries were, in principle and in fact, irrevocably fixed. The ultimate form of monetary integration was defined as a full monetary union, which would occur when there was a single currency for all members issued by a central monetary authority.

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

The arguments pertaining to a full monetary union described above were applied, with much the same emphasis, to the possibilities for achieving a partial monetary union. It was felt that, because of the substantial differences in the present economic and financial circumstances of member countries of the Community, reflected particularly in the existence of unrealistic rates of exchange and inadequate foreign exchange reserves, the establishment of a system of fixed exchange rates among the currencies of ECOWAS countries would create severe pressures which would before long undermine the fixed parity relationships. At the same time, it was recognized in most of the ECOWAS countries that a partial monetary union in this form, if introduced at an appropriate time, would constitute an important intermediate step toward full monetary integration. Such a system could not be made operable in the near term unless action were taken to limit severely the range of transactions to be covered by such an exchange regime. While the exchange arrangement under such a regime would in substance be close to that of a full monetary union, it would still permit a limited degree of freedom for policy making since each country would retain its own currency. There was also a feeling that, inherent in such a system, was the possibility that, if severe pressures arose, the exchange rate could be changed or, as a more serious step, that a country could withdraw from the union.

In view of the difficulties likely to be encountered in implementing either a full or a partial monetary union, the form of monetary integration viewed as most likely to gain the early support of the ECOWAS countries was a convertibility agreement along the lines outlined in Chapter II. Because such an agreement, in principle, could operate within the existing exchange arrangements of ECOWAS countries which would retain their national currencies, the requirement of complete harmonization of policies for the purposes of maintaining the viability of the monetary union would largely be avoided. To be effective, the agreement would require elimination of exchange controls and restrictions within the region and relative uniformity of exchange controls and restrictions vis-à-vis third countries. Thus, a convertibility agreement would represent an early stage of monetary cooperation under which participating countries, while recognizing the need to take into account the requirements of other countries and of the Community as a whole, would be able to establish and retain national economic priorities and policies. However, there was general agreement that the large payments imbalances at present in a number of ECOWAS countries must be removed before such a convertibility agreement could be considered a feasible option.

3. Preconditions for convertibility

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

In the present circumstances of the ECOWAS countries, there was another important factor concerning preconditions for convertibility. It was recognized that, to be viable, limited convertibility would require a uniform degree of convertibility by ECOWAS countries vis-à-vis the rest of the world. The absence of such uniformity would necessarily result in leakages, by which the country or countries with the least restrictive exchange system would essentially act as a conduit for commodity and capital flows from those countries with relatively weak, to those with stronger, balance of payments positions. Limited convertibility, therefore, had to be attained in a way which permitted the country or countries with few exchange restrictions to retain their existing exchange system, while those with more stringent restrictive systems would need to take steps to achieve the same degree of liberalization as those in the former group. This assumed, implicitly, that all countries would move in the direction of reducing reliance on exchange restrictions. Thus, in the present circumstances of the Community in which certain countries maintained exchange systems that are essentially free of restrictions on payments and transfers for current international transactions, in accordance with the obligations of Article VIII of the Fund's Articles of Agreement, other ECOWAS countries would need to take action to reach the same degree of liberalization. In the context of payments and transfers for current transactions, therefore, given the fact that the currency of one ECOWAS country is fully convertible, the ECOWAS countries would need to achieve not only "limited convertibility", as defined, but also convertibility with respect to the currencies of all other countries. A convertibility agreement under these conditions obviously implied a much greater effort in terms of adjustment policies than one in which uniformity in the exchange system within ECOWAS involved a relatively high degree of exchange restrictions vis-à-vis the rest of the world.

4. Convertibility and investment flows

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

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

5. The role of the West African Clearing House

There was general agreement that the WACH had an important role in facilitating financial transactions in the subregion and that any increase in the effectiveness of the WACH would be a further step in increasing monetary cooperation in the subregion and in moves toward the eventual achievement of convertibility. An increase in effectiveness could come from a strengthening of existing institutional arrangements of the WACH as well as from new initiatives to widen its sphere of influence.

The primary concern with the operation of the WACH in most countries was the problem of delays in settlements, delays that occur both at the level of transactions between commercial and central banks as well as between the central banks and the Clearing House itself. A number of suggestions were made for strengthening administrative procedures for settlements; these are not dealt with in this report. Other suggestions to increase the effectiveness of WACH included an expansion of the settlement period (at present one month), and a reappraisal of the credit limits available to individual countries, which in the view of some participating in the WACH were at present too low. It was also noted that oil imports from Nigeria by ECOWAS countries were not channeled through the WACH. This arrangement worked to the benefit of importing countries since at present each country maintained a bilateral arrangement with Nigeria for the settlement of oil import bills, arrangements which provided more advantageous settlement terms than would be possible if such transactions were to be passed through the clearing accounts of the WACH. For this reason, as a means of increasing the coverage of transactions channeled through the WACH, there was support for special arrangements to be introduced to include oil transactions within the clearing mechanism. There was also qualified support for proposals to make obligatory the channeling of intra-ECOWAS transactions through the WACH. While some had reservations on these proposals, others considered that a gradual move toward the compulsory use of the WACH would be a positive step which would be fully consistent with the movement toward convertibility.

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

VII. Summary and Conclusions

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

2. The concept of currency convertibility is both imprecise and elusive. Within the International Monetary Fund there has been a variety of concepts of convertibility that have evolved in response to the broad objectives of policy. Central to an understanding of the concept of convertibility within the Fund has been a perception that convertibility of a currency can be determined by the extent to which it can be used (its "usability"), and exchanged (its "exchangeability"), and by which its exchange value can be assured. Under the definition of convertible currencies contained in the original Articles of Agreement of the Fund, the currency of a member was convertible only if the member had notified the Fund that it had accepted the obligations of Article VIII, Sections 2, 3, and 4. These obligations were intended to establish "market convertibility" (essentially, freedom from restrictions on payments and transfers for current international transactions), and "official convertibility". With the adoption of the Second

Amendment of the Fund's Articles, which took effect on April 1, 1978, there is no longer a formal definition of a convertible currency, although by accepting Article VIII status members of the Fund agree to assume the responsibilities expressed in Article VIII, Section 4, including that of assuring the convertibility of foreign-held balances accumulated through current transactions. Leaving aside these questions of a legal nature, total convertibility of a currency can be defined as the completely unrestricted exchange of the currency of one country for the currencies of other countries without any limitation being imposed on the usability of the currency in question for any type of foreign transaction. By contrast, total inconvertibility would exist under circumstances in which there was complete inability to exchange the currency of one country for any other currency or to use it for any foreign transactions. Between these two extremes, which for obvious reasons do not exist in the real world, there is a range of possible degrees of convertibility.

3. For the purposes of this study, "limited convertibility" has been defined as the unrestricted exchange and use of the currencies of countries within a region vis-à-vis each other, i.e., where all exchange restrictions vis-à-vis the other countries of the group have been eliminated. It is important to note that, in principle, this concept of convertibility extends beyond that embodied in Article VIII of the Fund in that it applies to the exchangeability and usability of currencies for capital transactions as well as for current transactions. For the purposes of establishing and maintaining convertibility among the currencies of a region, "limited convertibility" can be viable only if all countries maintain that convertibility uniformly vis-à-vis the currencies of countries outside the region. An attempt to introduce convertibility in the absence of such uniformity, which can be identified by differences in the coverage and restrictiveness of the exchange systems in the region, would lead to an outflow of capital through the conduit of the country with the most liberal exchange system. This would tend to undermine the process of monetary integration. For any group of currencies, the establishment and maintenance of limited convertibility, as defined, is therefore dependent upon relative uniformity in the exchange systems of the region, i.e., a uniform degree of convertibility with respect to the currencies of third countries. It would be expected that this uniformity would be achieved by dismantling restrictions in countries with restrictive exchange systems rather than by introducing new restrictions in those countries maintaining relatively liberal systems. In this respect, it can be noted that several countries in the ECOWAS region have exchange systems that are free of restrictions in respect of current transactions vis-à-vis all other countries. In present circumstances, therefore, "limited convertibility" is not a viable concept for the currencies of the region. Thus, the only meaningful concept of convertibility for ECOWAS is one that involves the attainment of full convertibility of all ECOWAS currencies vis-à-vis the currencies of third countries.

4. Before currency convertibility can be achieved among the ECOWAS countries, certain preconditions need to be met. These preconditions essentially involve the correction of the balance of payments disequilibria that exist

in varying degrees in a number of countries of the region. Since the nature and extent of these disequilibria differ from country to country, the adjustment effort required in each country will also vary. Thus, the program of adjustment in any one country within the region clearly must be tailored to address the balance of payments problem in that country. Where the balance of payments problem is severe and the need for adjustment is large, the program to restore external balance will require a major and probably lengthy effort involving all available policy instruments in the fields of demand and supply management, covering monetary, fiscal, incomes, and exchange rate policies. The adjustment process will necessarily be a gradual one during which there would be an opportunity to reduce the reliance on exchange restrictions. Only when the adjustment effort in the individual countries in the region has succeeded fully in attaining a reasonable degree of external balance, and policy management in all countries of the region is directed toward making this balance sustainable, can there be de facto convertibility. It is at this point that the process of monetary cooperation can move forward to the more advanced stages of monetary integration. With the achievement of convertibility de facto, it follows that the countries of the region have eliminated, or are in a position to eliminate, their exchange restrictions.

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

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

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

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

6. The 16 countries of ECOWAS, all of which are members of the IMF, are availing themselves of the transitional arrangements of Article XIV, Section 2 of the Fund's Articles of Agreement. In a legal sense, therefore, the currencies of these countries (11 in all) are inconvertible in that the countries concerned have yet to accept the obligations of Article VIII. From the standpoint of each country's exchange system there are wide variations in the degree of convertibility among ECOWAS currencies as measured by the maintenance and the severity of exchange restrictions. While all 16 countries, in varying degrees, maintain controls and restrictions on capital transactions, marked differences exist among them in respect of their restrictions on payments and transfers for current international transactions. Several countries, viz., Liberia and the countries belonging to the WAMU, have exchange systems that are essentially free of restrictions on current payments and transfers vis-à-vis all other countries. On the other hand, other countries, among them Ghana, Guinea, Guinea-Bissau, and Sierra Leone, maintain highly restrictive exchange systems and are presently incurring arrears on external payments obligations which involve exchange restrictions. The restrictive exchange systems maintained in many ECOWAS countries, and particularly those countries with external payments arrears, are indicative of serious balance of payments problems being experienced by those countries.

7. The differences in the restrictiveness of the exchange systems of the ECOWAS countries which manifest the underlying balance of payments difficulties in the region, render the attainment of a full monetary union not a feasible short-term option but rather a long-term goal forming an integral part of the overall objectives of the regional integration effort. In this context, it can be noted that there already exists within the region a fully operating monetary union in the form of the WAMU. The experience of the WAMU clearly presents a useful guide to the broader objective of a monetary union encompassing all ECOWAS countries. The intermediate stage of monetary cooperation involving a partial monetary union, while permitting the participating countries to continue to issue their own currencies, would require the adoption of unified exchange rate arrangements with respect to third countries and the maintenance of fixed exchange rates between the currencies of the members of the union. The difference between these two forms of monetary union is one of degree, and a partial monetary union, therefore, must also be regarded as only a longer-term prospect for the ECOWAS countries. Thus, the form of monetary cooperation which can be identified as a reasonable first step for ECOWAS would involve a convertibility agreement under which participating countries would be able to maintain their individual currencies and exchange arrangements. Such an agreement, while incorporating a firm

commitment by each country to abstain from the imposition of exchange restrictions for regional transactions and to support the convertibility of its currency vis-a-vis the currencies of other participating countries, would allow all countries considerable autonomy in the formulation and conduct of economic policy. In particular, it would permit on-going flexibility and autonomy in exchange rate policy. For such an agreement to be viable in practice, ECOWAS countries must address, both collectively and on a country-by-country basis, their immediate problems of external payments disequilibria since the correction of these imbalances is a precondition for convertibility. Depending on the severity of the payments disequilibria in individual countries, the adjustment process may be difficult and protracted.

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

9. In sum, the process of monetary integration within ECOWAS, including the objective of achieving convertibility within the region, will require a carefully planned and coordinated approach by the participating countries. The following are seen as the principal ingredients of such a program of action.

(a) The ECOWAS Secretariat has indicated that a suitable time frame for meeting the preconditions for convertibility within ECOWAS would be the period already set down for the program of harmonization of trade policies within ECOWAS over the period 1981-89. Assuming an absence of externally-caused disturbances, this period should be sufficient for those countries with less severe balance of payments problems to achieve approximate equilibrium in their external accounts and enable those countries with deepseated and in some cases structural balance of payments problems to formulate, implement, and register progress in their programs of adjustment.

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

(c) Consonant with the objectives of economic integration in the ECOWAS region and the anticipated benefits for the member countries, proposals have been made for the establishment of a "reserve fund" to assist the adjustment efforts of member countries. This assistance could take the form of financial support provided by the stronger countries within ECOWAS, possibly accompanied by assistance from outside the region, particularly from international financial institutions. The development of such a facility would require a separate, detailed study.

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

(e) The principle of monetary cooperation within the ECOWAS region is already identified in the operations of the WACH which, with the exception of one country, has a common membership with ECOWAS. Within the limitations imposed by the low level of trade among the countries of the region, the WACH provides an opportunity to obtain the benefits of a multilateral clearing arrangement. While the achievements of the WACH to date have been modest, as would be expected given the relatively short period of its operation, it has provided an institutional framework for increased use of ECOWAS currencies in intraregional transactions. In this manner, the WACH can be viewed as offering a certain degree of convertibility of regional currencies for intraregional transactions. A number of proposals to increase the efficacy of the WACH have been put forward and dealt with at length in other studies. Two key suggestions relate to increasing the usefulness and efficiency of the clearing mechanism and reducing the risks associated with transactions channeled through the arrangement.

(i) With regard to the first suggestion, the use of the facilities of the WACH in respect of eligible regional transactions has varied greatly as between the individual ECOWAS countries. To date, the clearing arrangements have been avoided completely by some countries while others have shown a strong preference for using traditional banking relationships for regional transactions. The use of the WACH could be encouraged by a more intensive program of education to extend information regarding the clearing facilities. In the interest of making the institution a more effective instrument in intraregional trade, proposals have been made for instituting obligatory clearing of intraregional transactions through the WACH. The outcome of such a development is, at best, uncertain and it could in any event generate some opposition among transactors. At a much earlier stage, however, increased efforts should be made to increase the efficiency of the WACH's operations and to speed up the flow of transactions through the clearing mechanism. This will need a cooperative effort at all levels, in the clearing house itself, the central banks, and the commercial banks.

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

Exchange and Trade Arrangements in ECOWAS Countries

1. Exchange rate arrangements

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

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

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

2. Exchange systems

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

a. Prescription of currency

As indicated by Table II, all member countries of ECOWAS, with the exception of Liberia, have prescription of currency requirements. Currencies authorized for use in international settlements are generally convertible currencies or selected other currencies quoted by the central bank of the respective country. For the Operations Account countries 1/ within ECOWAS, i.e., the member countries of the WAMU plus Mali, settlements with France (and its Overseas Departments and Territories), Monaco, and other Operations Account countries are made

1/ Operations Account countries are the member countries of the WAMU, Cameroon, the Central African Republic, Chad, the Comoros, the Congo and Gabon. The convertibility of their currencies into the French franc at a fixed rate is guaranteed with certain qualifications by the French

Table I. ECOWAS: Exchange Rate Arrangements

(As of December 31, 1980)

Country	Exchange Rate Pegged To: Single Currency: U.S. Dollar	Sterling	French Franc	Composite of Currencies: SDR	Other Composite	Flexible Exchange Rate
Benin			CFAF 50			
Cape Verde					X 1/	
The Gambia		D4				
Ghana						X 2/
Guinea				GS 24.69		
Guinea-Bissau				PG 44		
Ivory Coast			CFAF 50			
Liberia	L$1					
Mali			MF 100			
Mauritania					X 1/	
Niger			CFAF 50			
Nigeria						X 3/
Senegal			CFAF 50			
Sierra Leone				Le 1.367		
Togo			CFAF 50			
Upper Volta			CFAF 50			

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

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

in CFA francs, French francs, or the currency of any other Operations Account country. In The Gambia settlements are the least restricted of all those ECOWAS countries which have prescription of currency requirements and may be made in any foreign currency. By contrast, in Guinea settlements may be made only in specifically designated convertible currencies.

There is only one operative bilateral payments agreement between two member countries of ECOWAS. This agreement is maintained between Cape Verde and Guinea-Bissau. Payments between these two countries are settled through clearing accounts maintained in the respective central banks. The bilateral payments agreement between Niger and Nigeria lapsed at the end of 1977. However, certain settlements between the two countries are still effected through special accounts maintained by the Banque Internationale pour l'Afrique de l'Ouest (BIAO). Settlements under bilateral arrangements between ECOWAS countries and non-ECOWAS countries are generally made in the currency(ies) agreed upon between the two countries.

Payments for intra-ECOWAS current account transactions are channeled by some ECOWAS member countries through the West African Clearing House (WACH). Settlements are commonly effected in selected convertible currencies. 2/ Column 4 of Table II indicates the extent to which banks in ECOWAS countries have in the past made use of the WACH for clearing of regional trade.

b. Imports and import payments

Table III gives an overview of the regime covering imports and import payments as of the end of December 1980. With the exception of Liberia, all member countries of ECOWAS impose quantitative and/or cost restrictions on imports. In a number of cases these restrictions reflect priorities laid down in formal foreign exchange and/or import plans. Only Cape Verde, The Gambia, and Liberia do not formulate any such plans. In the member countries of the WAMU some broad foreign exchange forecasting and planning takes place in the context of overall monetary planning of the Council of Ministers and the Executive Board of the BCEAO. More explicit import programs exist in Benin and Upper Volta. Mali's annual

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1/ (Cont'd from p. 60) Treasury. The Operations Account countries, in turn, hold the larger part of their foreign exchange reserves in an "Operations Account" with the French Treasury (up to 35 per cent may be held outside the account). These reserves are converted into and denominated in French francs. The related pooling of reserves allows for some flexibility in the use of foreign exchange by individual member countries and involves the possibility of an automatic foreign exchange credit up to a specified limit.

2/ Pound sterling, French franc, U.S. dollar, Swiss franc, and German mark. For a detailed description of the clearing mechanism see Section 2 of Chapter V of this report.

Table II. ECOWAS: Prescription of Currency

(As of December 31, 1980)

Country	Practice Exists	Bilateral Payments Arrangements With: ECOWAS Member	Non-ECOWAS member: Fund Member	Non-ECOWAS member: other	Settlement of Intra-ECOWAS Payments Through WACH 1/
Benin	X			X	Rarely
Cape Verde	X	Guinea-Bissau	X		Not member
The Gambia	X				Frequently
Ghana	X		X	X	Generally
Guinea	X			X	Generally
Guinea-Bissau	X	Cape Verde	X		Sometimes
Ivory Coast	X				Rarely
Liberia					Rarely
Mali	X		X	X	Rarely
Mauritania	X				No operations
Niger	X	Nigeria 2/			Rarely
Nigeria	X	Niger 2/			Sometimes
Senegal	X				Rarely
Sierra Leone	X			X	Generally
Togo	X				Rarely
Upper Volta	X				Rarely

Sources: Annual Report: Exchange Arrangements and Exchange Restrictions, 1981, IMF; and information supplied by the respective national authorities.

1/ West African Clearing House.
2/ The bilateral payments agreement between Niger and Nigeria lapsed at the end of 1977. Certain settlements, however, are still effected through special accounts.

import program distinguishes between clearing countries, i.e. countries with which Mali maintains bilateral payments arrangements, and convertible area countries, i.e., all other countries. An allocation commission establishes import quotas for each private importer on the basis of his turnover. The most stringent import programs exist in Ghana, Guinea, and Guinea-Bissau where a rigid system of exchange allocation is linked to an import licensing system which is based on the import program. A detailed annual foreign exchange budget also guides the import programs in Nigeria and Sierra Leone.

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

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

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

Table III. ECOWAS: Regime of Imports and Import Payments

(As of December 31, 1980)

Country	Import Control Mechanism: Import Plan/ Program Exists	Import Control Mechanism: Licensing System	Import Surcharge/ Advance Import Deposits	Foreign Exchange for Imports: Freely Available for Authorized Imports	Foreign Exchange for Imports: Payments Arrears	Preferential Treatment of Imports by Origin: ECOWAS	Preferential Treatment of Imports by Origin: Non-ECOWAS
Benin	Annual program 1/ WAMU program 2/	Open		X			French franc area
Cape Verde	No	Open/specific		X			
The Gambia	No	Open/specific	Import tax		X		
Ghana	Recurrently revised annual foreign exchange program	Specific	Cash margin deposit		X		
Guinea	5-yr. plan, annual foreign exchange program	Specific	Surcharge		X		
Guinea-Bissau	Monthly exchange program	Specific			X		
Ivory Coast	WAMU program 2/	Open		X			
Liberia	No	Specific	Surcharges	X			
Mali	Annual program	Specific		X		No license req.	European Commun.
Mauritania	Informal programming	Open			X		
Niger	WAMU program 2/	Open		X			France, Operations Account countries
Nigeria	Annual foreign exchange budget	Open/specific		X			
Senegal	General 2/ and special 3/ annual program	Open		X			French franc area

(Continued)

Table III (concluded). ECOWAS: Regime of Imports and Import Payments

(As of December 31, 1980)

Country	Import Control Mechanism: Import Plan/ Program Exists	Import Control Mechanism: Licensing System	Import Surcharge/ Advance Import Deposits	Foreign Exchange for Imports: Freely Available for Authorized Imports	Foreign Exchange for Imports: Payments Arrears	Preferential Treatment of Imports by Origin: ECOWAS	Preferential Treatment of Imports by Origin: Non-ECOWAS
Sierra Leone	Annual foreign exchange program	Open/specific	Invoice entry tax/special licensing		X	Lower license fee	
Togo	WAMU program 2/	Open/specific		X			French franc area
Upper Volta	Annual program 1/ WAMU program 2/	Open/specific	Customs stamp tax plus surcharge	X			French franc area

Sources: Annual Report on Exchange Arrangements and Exchange Restrictions, 1981, IMF; and information supplied by the national authorities.

1/ Applies to specific commodities only.

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

3/ Special annual program with global quotas for imports from all non-member countries of the European Communities outside the former French franc area.

Only two member countries of ECOWAS grant preferential treatment to imports from all other member countries of the Community. In Mali imports originating in an ECOWAS member country are exempted from individual licensing and require only an import certificate. In Sierra Leone the invoice entry tax and the special licensing fee for all imports from countries belonging to ECOWAS are reduced to 5 per cent, compared with 9 per cent for all other imports. Preferential treatment of imports originating outside the Community is accorded by Benin, Mali, Niger, Senegal, Togo, and Upper Volta, in most cases benefiting countries belonging to the former French franc area. It should also be noted in this context that all member countries of ECOWAS are signatories of the Lome Convention and thereby grant preferential treatment to imports from all member countries of the European Communities.

c. Exports and export proceeds

Table IV summarizes the main features characterizing for each ECOWAS country the regulations applying to exports. Export licensing is generally designed to ensure sufficiency of domestic supplies. Most member countries of ECOWAS do not apply explicit quantitative restrictions on exports. Only in Ghana, Guinea, and Nigeria are all exports subject to an export license. Certain ECOWAS countries maintain export prohibitions for selected countries in accordance with UN resolutions. No other general restrictions exist in these countries.

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

In most ECOWAS countries exporters must not only repatriate export earnings but are also subject to a surrender requirement. Liberia, however, permits exporters to dispose of their export earnings freely. Guinea allows "mixed economy companies" 1/ to keep their export proceeds abroad to pay for their imports and operating requirements.

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

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

1/ For a definition see page 64 above.

Table IV. ECOWAS: Exports and Export Proceeds

(As of December 31, 1980)

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

Sources: Annual Report on Exchange Arrangements and Exchange Restrictions, 1981, IMF; and information supplied by the authorities of ECOWAS countries.

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

d. Payments for and proceeds from invisibles

Table V summarizes for the ECOWAS countries the broad features of the principal regulations pertaining to invisibles covering primarily private and official travel, the transfer of income from investments, and the repatriation of wages and salaries. Liberia and the WAMU countries are the only ECOWAS countries which do not impose restrictions on payments and transfers for current invisible transactions. In all other countries either a permission or a more stringent form of regulation, an approval or even an authorization (Cape Verde and Guinea-Bissau) is required. In all member countries of the WAMU and in Mali all payments for invisibles to France (and its Overseas Departments and Territories), Monaco, and the Operations Account countries are permitted freely while all others require approval by the competent authority; the latter requirements do not involve exchange restrictions.

Limitations on foreign exchange for travel in the form of exchange allocations exist in all countries other than Liberia and the WAMU countries. The amounts differ widely from country to country and by purpose of travel, i.e. tourist or business. Apart from the general authorization/approval requirement for the repatriation of profits, some countries (Ghana, Guinea, Guinea-Bissau, Nigeria, and Sierra Leone) impose additional restrictions on the percentage of profits which can be repatriated. The percentages applying to each country are not disclosed. However, in Guinea the repatriation of at least 20 per cent of profits is guaranteed. Six of the 16 member countries of ECOWAS impose restrictions on the percentage of wages/salaries which foreign workers can transfer to their home countries. In Ghana 40 per cent of the net annual earnings may be remitted, up to a maximum of US$2,600 per year plus leave pay, while in Sierra Leone the limit is 40 per cent of the gross taxable annual wages and salaries or Le 8,000, whichever is lower. In Guinea the percentage differs between employees in the public sector, who may remit 40 per cent of net monthly salaries, and those in the private sector where the percentage is 30 per cent. In Mauritania the permissible percentage varies by family status; in Niger the percentage is normally 50 per cent of net pay, while in Nigeria there is a limit of 50 per cent of the gross annual income, and applications in excess of this limit are examined on their merits. Countries with payments arrears for imports 1/ generally also have payments arrears for their invisibles.

Proceeds from invisibles have to be repatriated and surrendered in all member countries of ECOWAS with the exception of Liberia. The member countries of the WAMU and also Mali, however, exempt proceeds from invisibles accruing in France (and its Overseas Departments and Territories), Monaco, and the Operations Account countries from this requirement.

e. Capital transfers

Table VI indicates that with the exception of Liberia all countries of ECOWAS control and/or restrict the outflow of foreign exchange in

1/ See Table III.

Table V. ECOWAS: Treatment of Invisibles

(As of December 31, 1980)

Country	Payments for Invisibles				Proceeds from Invisibles
	Approval/ Authorization Required	Limited Travel Allocation	Limit on Repatriation of Profits	Limit on Transfer of Salaries	Surrender Requirement
Benin	Approval 1/	Yes	No	No	Yes 1/
Cape Verde	Authorization	Yes	2/	2/	Yes
The Gambia	Authorization	Yes	No	No	Yes
Ghana	Approval	Yes	Yes	40% of net salary	Yes
Guinea	Authorization	Yes	Yes	40/30% of net salary 3/	Yes
Guinea-Bissau	Approval	Yes	Yes	Yes	Yes
Ivory Coast	Approval 1/	Yes	No	No	Yes
Liberia	No	No	No	No	No
Mali	Approval 1/	Yes	No	No	Yes
Mauritania	Approval	Yes	No	Varying percentages	Yes
Niger	Approval 1/	Yes	No	50% of net salary	Yes 1/
Nigeria	Approval	Yes	Yes	50% of gross income	Yes
Senegal	Approval 1/	Yes	No	No	Yes 1/
Sierra Leone	Approval	Yes	Yes	Up to Le 8,000 or 40% of gross salary	Yes
Togo	Approval 1/	Yes	No	No	Yes 1/
Upper Volta	Approval 1/	Yes	No	No	Yes 1/

Sources: Annual Report on Exchange Arrangements and Exchange Restrictions, 1981, IMF; and information supplied by the respective authorities of ECOWAS countries.

1/ Exceptions: France, Monaco, and Operations Account countries.
2/ Not available.
3/ 40 per cent for employees in public sector, 30 per cent in private sector.

connection with the acquisition of foreign assets by nationals. Capital outflows are not normally permitted (Cape Verde) and are prohibited to nationals (Guinea). In all other countries explicit approval by the authorities, generally the central bank, is required. More often than not the approval is given only when special circumstances warrant it; in all other cases it is denied. However, in the member countries of the WAMU and in Mali capital outflows destined for France (and its Overseas Departments and Territories), Monaco and the Operations Account countries are freely permitted.

With respect to capital inflows, a distinction has been made in Table VI between those resulting from domestic residents borrowing abroad and those resulting from foreign investors acquiring domestic real and/or financial assets. Both types of transaction involve the transfer of a title to domestic financial or real capital to foreigners. Borrowing abroad by domestic residents requires approval in all ECOWAS countries with the exception of The Gambia and Liberia. Foreign investments in member countries of ECOWAS generally require approval by the central bank. They are free only in The Gambia and Liberia. In the member countries of the WAMU special controls (additional to any exchange control requirements that may be applicable) are maintained over borrowing abroad, inward foreign direct investment and all outward investment in foreign countries, as well as over the issuing, advertising, or offering for sale of foreign securities. Such operations require prior authorization by the responsible ministries in each country. With the exception of controls over foreign securities, these measures, however, do not apply to the member countries of ECOWAS, as well as to France, Monaco, and the Operations Account countries.

Table VI. ECOWAS: Controls on Capital Flows

(As of December 31, 1980)

Country	Capital Outflows: Type of Exchange Controls	Capital Inflows: Borrowing abroad	Capital Inflows: Foreign Investment: Approval/Restriction
Benin	Restricted 1/	Approval	Approval
Cape Verde	Not normally permitted	Approval	Approval
The Gambia	Approval	Free	Free
Ghana	Approval	Approval	Approval
Guinea	Prohibited 2/	Approval	Approval
Guinea-Bissau	Approval	Approval	Approval
Ivory Coast	Approval 1/	Approval 1/	Approval 1/
Liberia	None	Free	Free
Mali	Approval 1/	Approval 1/	Free
Mauritania	Approval	Approval	Approval
Niger	Approval 1/	Approval	Approval
Nigeria	Approval	Approval	Approval
Senegal	Approval 1/	Approval	Approval
Sierra Leone	Approval	Approval	Approval
Togo	Approval 1/	Approval	Approval
Upper Volta	Approval 1/	Approval	Approval

Sources: Annual Report on Exchange Arrangements and Exchange Restrictions, 1981, IMF; and information supplied by the respective authorities of ECOWAS countries.

1/ Other than with respect to France, Monaco, and the Operations Account countries.
2/ With respect to nationals.

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