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REGIONAL INTEGRATION AND DEBT

IN

WEST AFRICA

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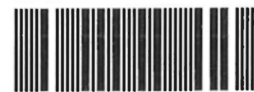
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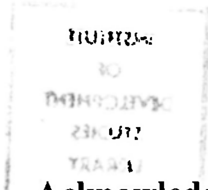

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List of Acronyms

AEC	African Economic Community
AFRODAD	African Forum and Network on Debt and Development
AGOA	African Growth and Opportunity Act
BCEAO	Banque Centrale des Etats Africains de l'Ouest
CEAO	West African Economic Union
EBID	ECOWAS Bank for Investment and Development
ECOMOG	ECOWAS Monitoring Group
ECOWAS	ECOWAS Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
GDDS	General Data Dissemination Standards
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IMF	International Monetary Fund
MIA	Monetary Integration Arrangement
MRU	Mano River Union
NEPAD	New Partnership for Africa's Development
NPV	Net Present Value
REPA	Regional Economic Partnership Arrangement
REC	Regional Integration Arrangement
US	United States
WACH	West African Clearing House
WAEMU	West African Economic and Monetary Union
WAMA	West African Monetary Arrangement
WAMI	West African Monetary Institute
WAMU	West African Monetary Union
WAMZ	West African Monetary Zone
WAUA	West African Union of Account
WTO	World Trade Organisation

Executive summary

West Africa has a history of subregional integration dating back to the early 1970s. Currently, West Africa has two major subregional organisations that dominate the integration landscape. These are the Economic Community of West African States (ECOWAS) with fifteen members, formed in 1975, and the West African Economic and Monetary Union (WAEMU) with eight members, formed in 1994. Other subregional organisations include the Mano River Union, established in 1973, which has three members who are also members of ECOWAS.

West Africa is the second most indebted African region with a debt-GDP ratio averaging 91 percent in 2000. Thirteen of the fifteen West African countries are eligible for the HIPC initiative. However, the rich potentials in using regional economic communities (RECs) as a solution strategy have not been explored.

Using the framework of two active RECs in West Africa viz, the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU), the positive roles of RECs in resolving the external debt crises have been probed. This has shown that West African RECs have had tenuous, if any, relationship to debt reduction processes and mechanisms. This is traceable principally to the absence of debt crisis on their agenda and, secondly, to the inherent weaknesses of the regional institutions and their policy instruments.

The economic rationale for a regional currency and monetary integration with respect to the debt crisis has been articulated showing the costs and benefits of such arrangements. The main cost element, which emphasises loss of monetary autonomy, seems to pale into insignificance when compared to the numerous benefits, including savings in foreign exchange and stimulation of economic integration itself.

Recent progress made towards a single monetary zone through harmonisation and convergence of macroeconomic variables as well as setting up the West African Monetary Institute has been demonstrated.

The key recommendations on how best regional integration can be used as an instrument of dealing with the growing regional debt crises include:

- Adopting a new approach to regional integration with explicit inclusion of the external debt problem as a central agenda item;
- Harmonisation of RECs through the use of variable geometry concepts, mergers and the principle of subsidiary, so that debt issues can be given appropriate space;
- Creation of regional development banks and stock markets to reduce the need for external borrowing and develop a culture of efficient use of debt resources;
- Strengthening of monetary integration arrangements, especially promoting the use of a single currency in the region to reduce dependence on hard currency and promote intraregional and export trade;
- Setting up a debt management mechanism and a focal point within the REC framework; and
- Promoting the awareness of member countries of RECs and their appreciation of the potentials of RECs in addressing the debt crisis.

Introduction

Although regional integration in West Africa region has put a high premium on macroeconomic convergence by defining parameters to move member states towards policy harmonisation and stability, the subregion still remains one of most indebted in Africa with thirteen of its fifteen countries classified as eligible for debt relief under the Heavily Indebted Poor Countries (HIPCs) initiative. The process of regional integration in West African still needs to work towards reduction of inflation rates, and fiscal and budgetary deficits to end the region's debt overhang.

In 2000 for instance, external debt as a percentage of GDP was unsustainably high. West Africa was the second most indebted region (after Central Africa), with a 91 percent debt-GDP ratio.[1] The subregion had an absolute debt stock of about US$ 70 billion and its debt burden was estimated to range between 60 percent and 120 percent of GDP. The floating rate of interest in the international capital market, the declining terms of trade experienced by primary commodity producers, declines in export growth rates and their negative current account balance collectively account for the increasing debt-export ratios in West Africa over the last four decades.

Unfortunately, the debt problem has not featured in any of the regional economic communities as a regional integration element or agenda. The external debt problem is only addressed implicitly. The reason is that treaties setting up some of the regional communities such as ECOWAS where drawn up in the 1970s when the debt overhang was not yet a development issue. A further reason is that debt has always taken a national character with different profiles and orientations in the various member states within ECOWAS and other regional economic communities.

The formation of ECOWAS, WAEMU, and indeed all the other regional economic communities in West Africa, set them on a path to economic development that would contribute to sustainable development. But this has eluded the West Africa subregion due to serious challenges the countries are facing Some of the challenges, such as armed conflicts, refugees, displaced persons and the tensions of the nation state in the making, are conjectural and may be transitory. Others include the inability to take advantage of the numerous opportunities to integrate the subregion's markets for goods, services and capital into other sectors of the economy and to promote closer cooperation among sectors. Just as these political and economic factors have constrained deep integration, so they have meant that the regional arrangements have not come close to addressing the region's debt overhang.

Those countries of West Africa that use the CFA Franc and the non-CFA countries present striking contrasts in performance and prospects for regional integration and debt reduction. The experience of indebtedness and trade payments mechanisms within the regional block is analysed in this paper. Some of the problems highlighted include poor communications infrastructure, failure of member states to settle payments arrears, and the liberalisation of member states' current account transactions, thereby making the central payment mechanism redundant.

The Current State of Subregional Integration

In examining the potential role of regional integration in reducing West Africa's ballooning debt it is crucial to give a brief background of regional economic communities (RECs) in the region. Currently, four RECs are operating in West Africa, with two of these being dominant. These are the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU). The objectives of ECOWAS combine those of free trade, customs union, economic community and economic union, while WAEMU's objectives are monetary integration with economic integration.

The third REC is the Mano River Union (MRU) established in 1973 and comprising Liberia, Sierra Leone and Guinea. The MRU aims to establish a customs union, promote rapid economic growth through trade instruments like elimination of tariff and non tariff barriers to intra-Union trade and establish cooperation in infrastructure. The MRU will not be discussed in detail in this report since its members are also part of ECOWAS, its socioeconomic objectives interface with those of ECOWAS and, above all, social conflicts within this group have rendered it moribund.

The fourth regional grouping is the West African Monetary Institute (WAMI) with six members, all of whom are members of ECOWAS and three also belonging to MRU. None of WAMI's members belong to WAEMU. The objective of WAMI is to initiate moves towards an accelerated monetary and single currency zone that will eventually result in a West African Monetary Zone (WAMZ) when linked with efforts of WAEMU. WAMI will not be discussed in great detail in this report.

1.1 The Economic Community of West African Sates (ECOWAS)

ECOWAS was established by the Treaty of Lagos in 1975 by sixteen countries viz Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo and Mauritania. In 1999, Mauritania withdrew its membership leaving fifteen members. All ECOWAS countries are severely indebted except three that are regarded as moderately indebted. That is Benin, Senegal and Togo. Some of the economic indicators are shown are shown in Table 1.

The following features, outlined in the table are worth noting:

- Guinea Bissau records the highest total external debt as percentage of GDP (373.9) in the region while Cape Verde has the smallest total external debt as percentage of GDP (44.4).
- Sierra Leone has the highest debt service as percentage of exports (44.5), while Togo has the lowest (9.5). Despite its cocoa and coffee exports, Cote d'Ivoire has 30.5 percent debt service to exports. This could be due to political uncertainty and decline of donor support to the country.
- With the exception of Ghana, Guinea Bissau, Liberia, and Sierra Leone, most countries have single digit inflation rates and some even recorded negative inflation between 1998 and 1999. Of the countries with higher inflation, Ghana due to lax monetary and fiscal policies and rapid currency depreciation, has inflation of 12.4 percent per annum. Generally, inflation does not emerge as a big problem in the region.
- Nigeria's budget deficit is believed to be worse than is reflected as the figure given might exclude the parastatals' losses and underestimate the country's debt service obligations.

Table 1: Economic Indicators for West Africa's ECOWAS members 1997 -2000

	Inflation %	Fiscal balance as % of GDP	Total External Debt as %of GDP Everage	Debt Services as % of Exports Everage
Benin	3.4	0.6	59.7	14.4
Burkina Faso	1.5	-3.8	59.2	20.2
Cape Verde	3.7	-11.4	44.4	22.2
Cote d'Ivoire	3.0	-2.3	111.7	30.5
Gambia	2.1	-3.4	110.7	11.9
Ghana	20.0	-8.6	95.3	22.4
Guinea	4.6	-2.5	95.4	21.9
Guinea Bissau	15.9	-11.9	373.9	12.8
Liberia	10.1	-	64.0	13.0
Mali	0.4	-3.0	111.3	17.1
Niger	2.0	-3.7	81.9	22.1
Nigeria	8.0	-4.1	88.1	13.3
Senegal	1.1	-0.4	74.8	17.4
Sierra Leone	20.9	-9.0	291.5	44.5
Togo	2.8	-3.9	87.9	9.5
West Africa	**6.3**	**-4.0**	**91.2**	**18.0**

Source: Adopted from Africa Development Report 2002

The treaty setting up ECOWAS articulated its objectives as follows:

> It shall be the aim of the Community to promote, co-operation and development in all fields of economic activity particularly in the field of industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, and in social and cultural matters for the purpose of raising the standard of living of its peoples, increasing and maintaining economic stability, of fostering closer relations among its members and of contributing to the progress and development of the African continent.[3]

And for the purpose of fulfilling the objectives spelt out above, the Community was to ensure the accomplishment of the following nine measures and strategies:

1 The elimination between the member states of customs duties and other charges of equivalent effect in respect to importation and exportation of goods;

2 The abolition of quantitative and administrative restrictions on trade among member states;

3 The establishment of a common customs tariff and a common commercial policy towards third countries;

4 The abolition between member states of obstacles to the free movement of persons, services and capital;

5 The harmonisation of the agricultural policies and the promotion of common projects in the member states, particularly in the fields of market research and agro-industrial enterprise;

6 The implementation of schemes for joint development of transport, communications, energy, and other infrastructure facilities as well as the evolution of a common policy in these fields;
7 The harmonisation of the economic and industrial policies of the member states and the elimination of the disparities in the level of development of member states;
8 The establishment of a Fund for Co-operation, Compensation and Development; and;
9 Undertaking such other activities calculated to further the aims of the Community as the member states may from time to time undertake in common.

ECOWAS, since its inception in 1975 was expected to achieve full customs union in three stages. It evolved a trade liberalisation scheme in 1990 but since then this has not been applied to any of the member states.

In terms of free mobility of factors, some progress has been made in dismantling barriers to intra-community movement of persons. Citizens of member counties of ECOWAS are no longer required to obtain visas to move to other member countries and can stay in such countries for 90 days before regularising their immigration status. In terms of capital mobility, little if any progress has been recorded.

In a recent review of the Treaty, the member countries reconfirmed their commitment to the coordination and harmonisation of national, economic and financial policies in order to enhance the effectiveness of their several economic development and reform programmes. ECOWAS has been implementing sectoral programmes along with the attempt to harmonise macroeconomic policies. There is exchange of infrastructure and social services, interconnection of national electricity grids, laying of a regional pipeline for the distribution of natural gas, water supply schemes, agricultural research programmes, and coordination of a desertification control programme launched in 1998. The ECOWAS Travellers Cheque scheme is expected to facilitate regional travel and ease commercial transactions. The West African Unit of Account (WAUA) is convertible to any of the currencies of the subregion. A privately owned and promoted regional commercial bank, the Ecobank, is functioning well.

It is evident from the foregoing that the operationalisation of ECOWAS within the trajectory of its mandates is very much a work in progress. However, ECOWAS has not addressed the external debt problem in any explicit way. Member countries saw no economic or financial sense in bringing their specific debt issue onto the ECOWAS agenda. How, for instance, would Nigeria bring its debt commitment of US$ 30 billion to the ECOWAS table for resolution? It will be shown later that, although external indebtedness was not an element in the regional integration agenda, the potential for factoring it in was high.

1.2 The West African Economic and Monetary Union (WAEMU)

WAEMU is a hybrid REC, combining economic and monetary union. The members are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The combined population of members of WAEMU in 2000 was 71.23 million. WAEMU was a 1994 merger of the original West African Monetary Union (WAMU) and the West Africa Economic Community (CEAO).

In order to gain membership, other West African states are required to implement WAEMU's macroeconomic policies, not to use their national currencies to deal with problems of macroeconomic imbalance, and stay within certain levels of inflation and indebtedness.

The fundamental features of WAEMU are:

- The centralisation of the external reserve holding of the Banque Centrale des Etats Africains de l'Ouest (BCEAO), the Central Bank of West African States;
- Harmonisation of banking and monetary legislation, as well as a uniform interest rate and common monetary and credit policies;
- Fixed parity between the CFA franc and French Franc (now linked to the Euro);
- The transfer of funds within the Franc zone and, therefore, within WAEMU;
- Harmonisation of foreign exchange rules with respect to countries outside the Franc zone; and
- Unlimited convertibility of the CFA Franc with the guarantee of France by means of the Operations Account, a special account held by French Treasury.

The objectives of WAEMU can be stated as follows:

1. To reinforce the competitiveness of the economic and financial activities of member countries in an open market within a legally rationalised and harmonised environment;
2. To ensure the convergence of the macroeconomic performance and policies of member countries with the institutions of multilateral control procedure;
3. To create a common market among member countries based on the free circulation of people, goods, services and capital, and to establish a common external tariff and common commercial policy;
4. To institute coordination of national, sector based policies with the implementation of common actions and, conceivably, common polices, especially in the domains of community based land reclamation, agriculture, environment, transport, infrastructure, telecommunications, human resources, energy, industries, mines and crafts; and
5. To harmonise the legislative, especially the fiscal, systems of the member countries.

The notable progress made in WAEMU includes the reduction of tariff rates within the Union to zero as from January 2000. This scheme includes what is called a 'solidarity mechanism' consisting of resources levied on the revenues collected under the common external tariff. This scheme has the potential to help alleviate the region's debt burden.

Most importantly, member states share a common currency, the CFA Franc, now pegged to the Euro. This is one of the greatest achievements of the West African Monetary Union and solves intraregional commercial transactions problems among states of non-convertible national currencies. It also reduces the quest for hard currency in intraregional trade and helps to lower intraregional

debt and payment problems. The group is also able to maintain rates of inflation and indebtedness that do not exceed agreed levels.

A customs union is now in effect and, since January 2000, customs tariffs on intra-community trade have been lifted and a common external tariff has been established. Framework documents laying out a code of public accountability for public finance and reform of public markets within WAEMU were adopted in June 2000. A community investment code is being adopted to replace the investment codes of individual member states. National Economic Policy Committees (CNPEs) have been set up in each country to ensure that each state means the convergence criteria based on inflation rates, investment rates, the level of domestic and foreign debt, and salary ratios.

Ongoing activities include the adoption of a common investment code, common budgetary expenditure nomenclature and system of multilateral surveillance to contribute to convergence of budgetary policies. This is essential to avoid incurring unnecessary internal and external debt. The diversity and growth of intraregional trade is expected to lessen dependency on the north which usually comes with conditionalities and increases indebtedness.

Experience so far has shown that the intra-WAEMU trade ratio is about twice the ECOWAS trade ratio and this has been attributed to its greater monetary integration.[4] This has raised the hope that the WAEMU initiative can serve as a reliable subregional building block to the ECOWAS whose membership, including WAEMU members, is more encompassing.

Again, the above survey makes clear that debt reduction was not an explicit goal of WAEMU. This is not to suggest that a solution to the problem cannot be accommodated within the framework of its mandate and objectives should the members feel so impelled. The entry points for such consideration will be explored later in this study.

Subregional Integration and Debt Reduction

The gains that regional integration offers revolve around:

Market Growth Regional integration enlarges the market space for all member countries. Greater market size tends to generate economies of scale that can lower the original tariff in all member countries. Thus cost saving and normal trade creation occurs. Integration is also likely to promote increased competition with a resultant positive impact on growth. There is a higher likelihood of obtaining favourable terms of trade as trade diversion leads to falls in costs and prices. RECs also tend to raise the returns on factors of production by reducing transaction costs on tradeables. When this is considered in the context of a larger market, foreign direct investment (FDI) is likely to be attracted since it would prefer locating within the region to facing external tariffs from outside. In this way, regional integration offers market protection to FDIs. Once this chain of effects is in progress, the domestic demand for external credit is reduced, thereby leading to a reduction in external indebtedness.

Policy Credibility The argument that regional integration tends to increase policy credibility has been illustrated by many economists including Whalley (1996) in respect of the North Atlantic Free Trade Area (NAFTA) and Francois (1997) in respect of European Union-Mediterranean RECs.[2] It is argued that REC enhances policy credibility by 'locking in' trade reforms. Since debt management policies can fall victim to policy reversal, thereby worsening indebtedness, it becomes crucial that this advantage be secured through REC.

Regional Conflict Although political union is the ultimate level or goal of some ongoing RECs, political support and political resources are essential for building RECs. The enticement of political ideals motivates and sustains the building of the European Union, for instance. In the Africa region, it is assumed that political stability should underpin the integrating region. If this is not the case, efforts are often made to ensure such stability. Thus, within ECOWAS, attempts have been made to resolve the sociopolitical conflicts that have engulfed Sierra Leone, Liberia and Guinea in recent years. Africa's development in the post independence era has been greatly retarded by the spate of conflicts that have ravaged the continent. It is, therefore, to be hoped that conflict resolution can be affected through the mechanism of an effective REC. The case for resolving regional conflict to ensure peace in REC's sociopolitical space is that no debtor or creditor interests can be served under a conflict situation. Peaceful (re)negotiations are only feasible when there is social peace.

Regional integration, so far, has not explicitly set out to enhance its functions by adding debt reduction mechanisms to its agenda. But immense potential and prospects remain to be exploited in this direction. A number of mechanisms that are likely to have an implicit impact on reducing debt have been pursued in West Africa. A review of these debt reducing mechanisms and how they could be enhanced to explicitly deal with the debt overhang in the region is given below.

Monetary Integration and Debt

3.1 Definition of Monetary Integration

Current African development initiatives perceive integration in the context of effective macroeconomic management and corporate governance. This entails promotion of increased regional trade and also convergence of monetary policies that can ultimately address the debt issue from a collective standpoint. The removal of barriers between markets is envisaged as increasing efficiency and helping to attract investment.
The following features normally characterise a monetary integration arrangement (MIA):

- Emergence of a single community currency or fully and irreversibly convertible national currencies, preferably the former for economic and credibility reasons;
- Centralisation of monetary policies with respect to liquidity, interest rates, exchange rate, reserve management and fixing currency parity with the rest of the world;
- Emergence of a regional central bank for the execution of monetary policy; and
- Complementarity with economic integration, in conformity with the idea that "one market needs one money"[6] e.g. the practice of the European Monetary Union cannot be separated from the process of European economic integration.

3.2 The CFA and Non-CFA Group

West Africa has two separate monetary zones, the CFA and non-CFA group. The CFA group consists of eight Francophone countries - Senegal, Togo, Mali, Niger, Cote d'Ivoire, Burkina Faso, Guinea Bissau and Benin. These former French colonies have pegged their currencies to the French Franc and, since January 1999, to the Euro. The non-CFA group, dominated by Nigeria, also includes Sierra Leone, Liberia, Gambia, Ghana, Guinea and Cape Verde. The region has been doing quite well but has suffered adverse effects from political instability among member states such as Liberia and Sierra Leone. The leading countries of each of the two groupings have had their share of political instability and security problems, Nigeria during military rule and Cote d'Ivoire during its 1997-2000 political instability. In the process huge external debts and mismanagement of borrowed funds occurred.

Nigeria relies heavily on crude oil and gas while Cote d'Ivoire relies on cocoa and coffee. Deteriorating terms of trade for primary products on the world market have negatively affected West Africa's ability to obtain much needed foreign currency for debt service and trade with the western world. Nigeria has already experienced a weaker oil price and it stands together with Ghana and Cote d'Ivoire as the main debtor countries in terms of the amount of external debt. In Ghana, the falling export prices and higher oil import costs, coupled with reduced inflows of aid, caused the sharp depreciation of the Cedi which fell 57 percent against the US Dollar in 2000, following a 49 percent depreciation in 1999. In 2001, the Cedi lost a further 24 percent of its value against the US dollar. Ghana is among the ECOWAS members that have been failing to reduce its inflation rate to a single digit in line with regional macroeconomic convergences necessary for integration and debt reduction.

3.3 An Assessment of Monetary Integration Arrangements

It is difficult to assess how policy convergence, as a total package, is helping West Africa to generate macroeconomic discipline in member states of either ECOWAS or WAEMU. The main parameters for convergence include interest rates, inflation, FDI flows, budget deficits, debt-to-GDP ratios and

economic growth rates. It has not been easy for many states to reach the desired heights of macroeconomic reforms and stability when struggling with a heavy external debt burden. In Burkina Faso revenues fell below the 17 percent GDP WAEMU convergence criteria in 2001 while, in Cote d'Ivoire, a freeze on aid and multilateral lending forced the government to cut capital expenditure and revise its initial budget.

Political instability and conflict in West Africa have, in many cases, militated against regional integration and debt reduction. Sierra Leone, for example had a precarious security situation that forced the government to allow its fiscal deficit to widen from 9 percent in the late 1990s to 13.8 percent in 2001 as more security related expenditure was required. Tariff reduction for countries like Sierra Leone poses difficulties because of the impact on revenue. Intra-REC trade, particularly intra-REC exports has been the preserve of only a few dominant economies.

ECOWAS (ECA, 2000) has progressed well with its trade liberalisation programme on traditional and artisan goods, eliminating all tariffs, but not so well on industrial commodities, where the tariff reduction schedule is still facing problems. Its trade performance could thus have been boosted only by greater traditional and artisan trade. Given the 27 years ECOWAS has been in existence, this performance cannot be considered satisfactory. Besides, the common ECOWAS external tariff has still not seen the light of day and the economic and financial policies have not been harmonised, although a framework has been established for this.

Many believe that much higher rates are possible if substantive progress is made on the trade liberalisation programme for industrial goods and if complete harmony is established between WAEMU and ECOWAS to secure a more unified West African subregional economic market.

In many West African countries fiscal policy is now focused on minimising domestic debt and freeing resources for private sector activity by reducing fiscal deficits and making tax administration and government spending more transparent. But because of political instability, national security concerns and higher social spending, among other things, overall fiscal policy was expansionary in 2000. Exchange rate realignment remained a key challenge, particularly in non-CFA countries with flexible exchange rates and loose monetary policies relying on managed floating rates. CFA countries have preferred fixed exchange rates to promote stables prices.

The situation has two significant implications for trade and debt sustainability in the subregion. The first is that the prospects for servicing external debts with export proceeds hardly exist given the need to pay for essential imports. The second is the fact that, unless the export bases of these countries are substantially deepened and diversified, the prospect for sustainable growth, hence the promotion of intraregional trade remains dim. This condition provides perhaps the strongest single argument in support of those advocating for outright debt forgiveness. But it also illustrates that limited availability of foreign exchange earned through exports tends to increase the external indebtedness of the subregion.

The growing rapport between ECOWAS and WAEMU on trade liberalisation and macroeconomic policy convergence seems to be the way forward in harmonising the RECs. The two RECs have agreed on common rules to enhance trade, and harmonise customs declaration forms (as a single document) and compensation mechanisms.

3.4 Cost-Benefit Analysis of Regional Integration

Participation in a monetary integration arrangement (MIA) with a single currency has a set of both costs and benefits that can be stated generally as well as with specific reference to the debt crisis facing the countries in the West African subregion. The costs include:

- **Loss of Monetary Independence** Monetary integration requires that the participating countries pursue monetary policies that are closely coordinated and unified for the entire region. This means that all participating countries lose their ability to pursue internal monetary policies for addressing their national economic problems. In West Africa, the loss of monetary independence would, of course, deprive governments of access to inflationary financing which can either be a cost or gain depending on the use of the deficit proceeds.

- **Loss of Sovereignty** The implementation of ECOWAS/WAEMU regional community protocols has been undermined by concerns of diminishing national sovereignty and policy making autonomy. Macroeconomic convergence calls upon national governments of individual states to implement certain strategies that will see members of the REC achieving certain budgetary and fiscal targets. This however, can be positive if applied to deal with the external debt issue.

  What happens in a neighbouring country has effects on the economy of other ECOWAS/ WAEMU members. For instance, in 2001 Mali's economy was hit by the spin-off from the political instability in neighbouring Cote de I'voire and its cotton production went down.

  Regional integration in West Africa has also meant intervention in the internal affairs of member states by ECOWAS. Its role in conflict prevention and management became prominent from 1990, when it set up the ECOWAS Monitoring group (ECOMOG) to intervene in the Liberian civil war (1989-1997). ECOMOG oversaw the peace process and elections that marked the formal end of the Liberian conflict in 1997, and also intervened in Sierra Leone, where a civil war that broke out in 1991 was declared ended in early 2002.

- **Cost of Monetary Transition** As the recent experience with the Euro demonstrates, the cost of conversion of accounting machines, printing of new currencies, minting of coins, and training of staff etc. can be enormous.

- **Psychological Costs** When the transition from the existing regime to a single currency regime is contemplated, strenuous efforts may have to be deployed to convince the public of the desirability of using the new system. The existence of the costs outlined above warns against the assumption that monetary integration will automatically or immediately address the problem of debt overhang for member states of either ECOWAS or WAEMU.

Some of the benefits of a regional integration for debt reduction are:

- **Cost Savings** A single currency in a REC eliminates the imperfections in the sustainability of currencies in a system of multiple convertibility. Each process of convertibility would attract a commission and, at each stage, an economic agent undertaking the conversion is likely to sustain a lower value no matter how marginal. An irrevocably fixed exchange rate eliminates destabilising speculative capital flows between partner countries.

- **Savings on Exchange Reserves** The payment mechanism for members of the REC no longer needs international reserves for transactions within the area making these countries similar to regional constituents of a large country, using only a single currency. This enhances

  intraregional trade since members no longer require foreign currency to trade among themselves. In the

  same vein, savings on foreign exchange will facilitate reduction in external indebtedness. Such advantages are currently lost to ECOWAS whose monetary integration arrangement (MIA) is at a formative stage.

- **Policy Credibility** Monetary integration can stimulate integration of economic policies of member countries. This is because integration commitment acts as an agent of restraint for countries from pursuing, say, inflationary policies. In other words, the MIA can enhance the credibility of domestic macroeconomic policy.

- **Negotiation Advantage** In external negotiations a MIA carries more weight than a single member country. The fact that most debtor countries go to a group of creditors on their own without regional backing has been a major setback in terms of attaining debt reduction in the region. Creditors to West Africa and the rest of Africa have been allowed to decide on their own who is eligible for funding and who is not. Thus, proposals to reschedule debt, swaps, and initiatives such as HIPC have been half baked and implemented without success in Africa. It is possible that, in exploiting this advantage of monetary integration, indebted countries could insist on using the common currency in exploring different options in debt reduction mechanisms.

- **Export Trade Creation** Trade creation is one of the standard advantages of the regional integration. If the process of trade creation has a heavy export component, this can be very important for the management of indebtedness. This is because exports are needed to service eternal debts. It is now well known that export laggardness is the single most important determinant of the region's deteriorating external debt situation.

- **Flow of Foreign Investment and Domestic Resource Mobilisation** FDIs are more likely to be attracted to a subregional market given the obvious advantages of operating within an enlarged market. The same goes for domestic industries, which benefit from a wider market to mobilise resources and sell their products. These developments have an indirect but positive impact on the debt structure, reducing it to a sustainable level and turning indebtedness into a powerful development resource.

A cost-benefit impact assessment of regional integration suggests that the costs of RECs mainly relate to the loss of macroeconomic independence and seem to be few in comparison to the overwhelming benefits. These include trade creation, macroeconomic stabilisation, flow of foreign investment, infrastructure development, emergence of private sector firms in response to the broadened regional market, and opportunities for a collective approach to debt negotiation and financing of member states.

3.5 Constraints Arising from Regional Use of Foreign Currency

To comprehensively examine this issue it is necessary to look at shortage of foreign currency as one of the constraints to intraregional trade, as well as reduction in indebtedness as one of the key objectives of regional integration. A few informed conjectures can be made based on what might be possible if a single currency and monetary integration were part of the regional integration process.

In the first place, it is important to note that all estimates of intraregional trade in ECOWAS show that this has been low, hovering between 6 and 13 percent of total regional trade between 1985 and 1988, as shown in Table 2.

Table 2: Yearly structure Of ECOWAS Trade, 1985-1998 (US$ Million)

	Imports			Exports			Total grade		
	General	Intra	%	General	Intra	%	General	Intra	%
1985	15 344	984	6.4	18 810	1 060	5.6	34 154	2 044	6
1986	10 451	1 172	11.2	11 999	945	7.9	22 415	2 117	9.4
1987	11 383	1 078	9.5	14 591	1 580	10.8	25 974	2 658	10.2
1988	11 388	1 120	9.8	13 873	1 490	10.7	25 261	2 610	10.3
1989	11 181	1 092	9.8	15 186	1 473	9.7	26 367	2 557	9.7
1990	13 320	1 454	10.9	20 736	2 113	10.2	34 056	3 567	10.5
1991	14 073	1 338	9.5	19 384	1 661	8.6	33 457	2 843	805
1992	18 501	1 808	9.9	19 188	2 180	11.4	37 689	3 988	10.7
1993	17 428	1 572	9	15 249	1 600	10.5	32 676	3 172	9.7
1994	13 518	1 186	8.8	12 036	1 230	10.2	25 554	2 428	9.5
1995	13 838	1 427	10.3	16 121	1 644	10.2	29 959	3 071	10.3
1996	15 621	1 690	10.8	20 437	2 166	10.6	36 058	3 856	10.7
1997	16 550	1 600	9.7	19 656	2 398	10.2	35 036	3 889	11.1
1998	17 325	1 538	8.9	15 279	2 270	14.9	33 699	3 808	11.3

Source: ECOWAS Handbook on International Trade, 1999 p.15

A close observation of the Community trade matrix for both imports and exports reveals not only low values but also a number of cases where there is no trade at all between particular countries. The reasons for this are:

- Most countries of the region produce primary products like cocoa, coffee, groundnuts (etc) and the markets for these are externally located rather than internally anchored within the region, the exception being Nigeria's petroleum products which are partly consumed by some of her West African neighbours. Reliance on primary products has been responsible for the shortage of foreign currency sufficient for imports and debt servicing. Debt payments are made mainly from export proceeds and the same export proceeds are used in financing imports.

- A review of the total cumulative imports and exports of members of ECOWAS indicates that 80 percent of the member countries are deeply import dependent. Import dependency is particularly overwhelming for countries like Cape Verde, Gambia, Guinea Bissau, Senegal

and Sierra Leone. This situation has two significant implications for trade and debt sustainability in the subregion. The first is that the prospects for servicing external debts with export proceeds hardly exist given the need to pay for essential imports. The second is the fact that, unless the export bases of these countries are substantially deepened and diversified, the prospects for sustainable growth, and hence the promotion of intraregional trade, remain dim. This condition provides perhaps the strongest single argument in support of those advocating outright debt forgiveness. But it also illustrates that limited availability of foreign exchange earned through exports tends to increase the external indebtedness of the subregion.

- Trade in consumer items on the West Coast is conducted in local currencies, often converted into CFA Francs thus, had the region used a single currency, trade transaction costs would have been reduced and volume of trade increased.
- There are supply constraints in the production of local and exportable items traded in the subregion, in particular, poor infrastructure facilities like transportation telecommunication, power supply and technology, which would continue to limit intraregional trade even if a single currency came into operation. This has led many countries in the region to prefer trading with the north though at low prices for their goods and at the risk of increasing their external debt in the process.

3.6 The Feasibility of a Single Currency

From the preceding analysis it is clear that having a viable regional currency is feasible and indeed this feasibility has been so compelling that definite moves have been initiated to bring this about.

In 2001, six of the fifteen member countries of ECOWAS - Nigeria, Ghana, the Gambia, Guinea, Liberia and Sierra Leone - launched an initiative to set up a second monetary zone and common currency in West Africa, alongside the eight member West African Economic and Monetary Union (WAEMU). The six countries plan to adopt a common currency by January 2003 and to work towards merging their planned monetary union with WAEMU by January 2004, giving rise to a single monetary zone in the whole of West Africa by that date.

In moving towards this goal, ECOWAS launched the West African Monetary Institute (WAMI) in Accra. This is a two year, transitional institution that will pave the way for a common central bank. National Ministers of Finance, Trade and Commerce, Foreign Affairs, and Integration, together with central bank Governors sit on the ECOWAS Convergence Council, which is empowered to carry out multilateral surveillance of national economic policies. A technical committee of leading economists and national central bankers will work out the structure and regulatory framework for a common central bank for the six countries. The West African Central Bank will issue a common currency, and design and implement a common monetary policy after the coming into force of the monetary zone.

With the preparatory moves made by WAEMU since 1994 towards monetary integration of its eight member organisation and the current initiatives by ECOWAS described above, the path towards one-currency monetary integration seems well defined.

Debt, Trade and, Monetary and Fiscal Harmonisation

4.1 External Debt

The external debt profiles of West African countries helps to emphasise two salient points. First the failure to introduce the debt crisis into the regional integration agenda has left the member countries in weak negotiating positions for meaningful debt relief and, secondly, any externally driven debt reduction initiative (without the nations' collective participation) cannot fundamentally address the debt crisis facing the subregion.

The total indebtedness of the subregion peaked at US$ 77.3 billion in 1995 falling to about US$ 68.4 billion in 1997. Despite this fall, the region still carries a crippling debt burden, representing 91 percent of GDP. Nigeria and Côte d'lvoire are major debtors in the region carrying a combined total debt of 67 percent of the figure for the ECOWAS subregion. Between 1996 and 1997 for instance, Nigeria has spent US$ 4.5 billion in debt servicing while Côte d'lvoire spent US$ 1.1 billion during the same period. In other West African countries, the external debt remains unsustainable, ranging from 60 to 120 percent of GDP, and debt servicing takes a substantial chunk of GDP.

Table 3: Total External Debt Stock of members of ECOWAS

	1980	1990	1995	2000
Benin	334.3	1 176.8	1 612.2	1 419.5
Bekina Faso	220.5	611.1	1 204.0	1 578.7
Cape Verde		131	190.8	303.4
Cote d'lvore	5 802.6	15 304.8	16 075.3	11 249.0
Gambia	212.8	259.1	402.3	511.3
Ghana	1 398.0	3 295.2	5 674.9	6 505.7
Guinea	1 005.2	2 385.2	3 079.7	3 375.2
Guinea Bissau	445.4	738.4	944.6	796.7
Liberia	652.8	2 087.5	2 170.6	2 041.0
Mali	708	1 977.6	2 731.2	2 653.4
Niger	426.9	1 348.8	1 592.1	1 561.3
Nigeria	6 48.0	33 746.0	31 929.6	31 937.4
Sierra Leone	482	1 486.0	1 909.4	2 035.4
Togo	976.2	1 181.6	1 449.3	1 042.6

From Table 3 it is clear that Nigeria and Cote d'lvoire, though they are the regional economic giants expected to spearhead the process of regional integration in West Africa, they themselves are among the most heavily indebted. Nigeria was discreetly removed from the HIPC list in 1998, despite having an income per head of less than US$ 300 and an effective debt to export ratio of over 250 percent. The debt service due (US$ 3.6 billion) ratio to export revenues is over 30 percent. Both these ratios exceed by far the ratios for eligibility for HIPC set by the IMF and World Bank.

Nigeria's debt stock remains unsustainably high representing 81.4 percent of the GDP and 169 percent of exports. Tackling Nigeria's burden of debt is crucial for the whole of West Africa's regional integration and development. Nigeria is a case used by many critics of the HIPC initiative

to demonstrate the failure of the initiative due to the very reason that creditors alone have the power to define who gets what, when and how. The establishment of a REC cartel would address this lopsidedness of the debtor countries in debt negotiations. Currently the creditors in their cartels (e.g. London/Paris Club) negotiate from a position of strength while African countries do so from an individually weak position, subjected to the whims and caprices of the creditors.

4.2 Payment Mechanisms

One of the practical difficulties facing West African RECs is the poor payments system. This is attributed to lean financial resources and non convertibility of most of the currencies in the region. As a consequence the use of intraregional traditional trade financing techniques, such as bills of exchange, bank overdraft, credit insurance, factoring export guarantees, supplier or buyer credits, and export leasing are limited. The possibility that the use of these instruments would have boosted the volume of intraregional trade is missed. Thus, the promotion of intraregional trade has been hampered to a great extent by the need for hard currency for debt servicing and commercial transactions with the north

The alternative solutions that have been attempted in the West Africa subregion include the establishment of the West African Clearing House (WACH) in 1975 to help towards the promotion and enhancement of greater intraregional trade in ECOWAS. As a multilateral payments arrangement,

it involved nine central banks in the subregion in collaboration with some commercial and merchant banks. The WACH made possible some limited convertibility of national member currencies that were mostly non convertible. For the purpose of simplifying exchange arrangements for these national currencies, a stable unit of account called the West African Unit of Account (WAUA) was introduced to serve as a common denominator for all the currencies. The WAUA rates were used to exchange currencies and effect payments for intraregional transactions.

Although WACH provided a useful platform for promoting monetary cooperation and had the potential to foster debt reduction, not much was achieved. The reasons for the slowdown in the efforts to get an efficient monetary integration arrangement off the ground can be located both within the structure of the monetary arrangement initiated and the in the weakness of the REC framework. Some of these reasons can be identified as follows:

- Declining volume of trade transactions passing through the clearing system, arising from the low levels of industrialisation in the subregion which meant that diversified trade items were limited;
- Instability and disharmony in exchange rates among member states, with the volatility in exchange rates being particularly rampant in non CFA countries that embarked on structural adjustment reforms;
- Poor communications to facilitate the direct correspondence among banking institutions;
- Failure of some member countries to ensure settlement obligations as and when due, caused either by lack of funds or bureaucratic ineptitude; and
- Liberalisation of current accounts and repeal of rigid exchange control regulations.

The problems affecting WACH led to its transformation into the West African Monetary Agency (WAMA) in 1995. WAMA was to ensure the maintenance of close surveillance over member states' monetary, fiscal and exchange rate policies to achieve a stable intraregional foreign exchange market. It was also to design programmes and policies for coordinating and harmonising the macroeconomic policies of member states, provide technical support for the implementation of member states' structural adjustment programmes, and implement a credit guarantee fund, the ECOWAS travellers cheques and ECOWAS exchange rate mechanism. All of this was with a view to facilitating the payments mechanism.

The problems facing the two trade payment mechanisms viz WACH and WAMA include declining volume of trade, exchange rate instability in the member states, poor communications infrastructure, failure of member sates to settle payment arrears and side stepping of the use of the existing mechanism(s) through liberalisation of member states' current account transactions. The persistent weakness of WAMA, which replaced WACH, has also been highlighted, especially in terms of failure to engineer a take off of the ECOWAS travellers' cheque and exchange rate mechanism.

However, the speedy realisation of monetary cooperation in ECOWAS, as in any other region, is a function of several factors, both internal and external to the envisaged monetary zone. It is dependent, for instance, on the pace at which the central bank in the subregion achieves the macroeconomic convergence indicators, like the rates of interests, market determined exchange rates, and single digit inflation rates.

4.3 Harmonisation of Macroeconomic Variables

As indicated earlier, a fresh initiative was undertaken in 2001 to form the West African Monetary Institute (WAMI), within whose framework all necessary steps would be taken to realise the dream of West African monetary integration. The harmonisation of macroeconomic variables is an essential first step towards the realisation of a single currency. To this end, member countries have committed themselves to restructuring their economies to meet stringent convergence criteria before the introduction of a single currency. The primary convergence criteria focused on are:

- A restriction of the budget deficit, excluding grants/GDP ratio, to no more than 5 percent by 2000 and to 4 percent by 2002;
- A limit of annual inflation rate to single digit by 2000 and 5 percent by 2003;
- A ceiling on central bank financing of budget deficit to 10 percent of the previous year's tax revenues by 2000: and
- A floor on foreign exchange reserves of at least three months of imports by 2000 and six months by 2003. [8]

There are some secondary criteria or analytic indicators that include the following:

- Prohibition of new domestic arrears and liquidation of the backlog;
- Tax revenue-GDP ratio to be equal to or more than 20 percent;
- Wage bill-tax revenue ratio to be less than or equal to 35 percent;
- Domestically financed public capital expenditure-revenue creation of at least 20 percent;
- Stability of real exchange rate to be maintained by each country, the exact rate to be determined within the framework of the ECOWAS exchange rate mechanism; and

- Interest rates being maintained at positive levels in all member contries.[9]

The WAMI 2000 Report on the progress made by the five member states of the proposed zone - Gambia, Ghana, Guinea, Nigeria and Sierra Leone - showed sustenance of economic reform programmes drawn up, whether independently or in collaboration with multilateral institutions. These member states were observed to have continued to improve their economic performance and were, therefore, in a position to attain the four prescribed primary criteria on schedule. In net terms, only two of the five countries covered by the report met the four criteria but, for all members of ECOWAS where returns were made, considerable improvements had been made in both the primary and secondary criteria.

The Impact of External Arrangements

If and when the issue of debt is introduced or highlighted in the regional integration agenda, it will be impacted by the inherent efficacy of the REC. Consequently, whichever external arrangements affect that efficacy will inevitably affect the debt sustainability potential of the region and the member states. The external arrangements that will impact ECOWAS include subregional agreements like WAEMU and MRU and regional ones, such as African Economic Community (AEC) and the New Partnership for Africa's Development (NEPAD). Outside the subregion, West Africa RECs will be affected by the involvement of member countries in the Trade Agreements with the European Union (EU) under the Lomé process, the US African Growth and Opportunity Act (AGOA), and participation in the WTO, through the multilateral trade mechanism. Each of these is briefly discussed below.

5.1 West African RECs and External Influence

As already highlighted, there are now four RECs operating concurrently in the West Africa subregion. These are ECOWAS, WAEMU, MRU, and WAMI, a subset of ECOWAS. The membership of some of the countries crosses various organisations.

It is apparent from the multiplicity of both membership and objectives of the four RECs that there is likely to be much duplication of effort. Examples include the objectives of MRU, which interface with the socioeconomic objectives of ECOWAS, and WAEMU as well as the MIA objectives within WAEMU and WAMI. These duplications can lead to over stretching of bureaucratic resources, and therefore waste, among member states. But the sociopolitical history of the region probably made the emergence of these substructures inevitable. The use of the CFA Franc for instance was tied to the post colonial relationship with France and not much could be done about this.

Three approaches might help in reducing the duplication of effort. These are the reorganisation of the RECs using:

1. The principle of 'variable geometry' whereby small groups are allowed to grow progressively in discrete steps and decisions are based on majority rather than consensus criteria;[10]
2. The rationalisation and harmonisation of existing structures, preferably through mergers; and
3. The application of the 'subsidiary principle' that allows cross border functions to be handled by the relevant sub units.

A careful application of the above concepts could overcome the problems of parallel subregional organisations and strengthen the existing organisations to deliver an important output like debt reduction.

A careful application of the above concepts could overcome the problems of parallel subregional organisations and strength the existing organisations to deliver an important output like debt reduction.

5.2 SAPs and West Africa's Regional Intergration

Since the early 1980's, the International Monetary Fund (IMF) and the World Bank have implemented macroeconomic policies known as Structural Adjustment Programmes (SAPs) in most African countries. Designed to assist developing countries to emerge from the debt crisis, SAPs were

established as conditionally for the rescheduling of existing loans as well as granting further loans to developing countries. The SAPs have however failed to address the debt crisis and they have even slowed the pace of regional intergration in West Africa.

The policies imposed, such as forced privatisation, the liberalisation of markets, the "blanket export policy" and the withdrawal of expenses dedicated to the requirements of the most vulnerable members of society intensify inequalities considerably and are incompatible with the long term development defined by the countries themselves. With SAP conditionalities, independant policymaking and national economic management has considerably diminished and narrowed. This has made it difficult for countries to work towards regional monetary convergence, let alone try their own ways of dealing with the external debt issue.

Both the IMF and the World Bank claim that SAPs will ensure that countries grow out of their debt but, with decades of adjustment, there is not one case in West Africa, which proves this point.Government deficits are seen as part of the problem and, as a result, social services are cut with government resources being shifted from social spending to debt servicing. Reduction in health spending includes cuts in the number of employees and closure of hospitals and clinics, particularly in the rural areas, leaving rural women with no access to badly needed healthcare and medicines.

External pressures, especially debt servicing, has made it difficult for some powerful regional countries to spearhead regional intergration, particularly monetary convergence. For instance, weak economic growth has made it difficult for Nigeria to meet its external obligations. The country has failed to meet its 2002 debt servicing requirement of US$3.4 and has met few of the targets for fiscal consolidation, lower inflation, economic liberalisation, and privatization required by the International Monetary Fund.

5.3 HIPC and West Africa's Regional Intergration

Efforts to address the problem of external indebtedness of low income countries led to the development and implementation of the Heavily Indebted Poor Country (HIPC) initiative in 1996. In recognition of the unsustainable debt burden, not less than thirteen out of fifteen countries, representing about 87 percent of ECOWAS members, have come under the HIPC classification. It is interesting to observe that, although Nigeria's debt stock is the largest in the subregion and country is experiencing growing poverty, it has not been recognised as an HIPC eligible country.

Following the consultative review of HIPCs in 1998-99 by the World Bank and IMF, new proposals emerged for an enhanced HIPC framework (EHIPC). Debt relief was later linked with poverty reduction by developing a framework for implementation and monitoring using a country designed and driven Poverty Reduction Strategy Paper (PRSP).

While EHIPC may be regarded as a step in the right direction, it must be a acknowledged that the debt relief promised is not as deep or as broad as expected.West Africa's thirteen HIPCs are in no position to service their debts exports income. In countries where policy reforms are weak there are prospects that they may relapse into indebtedness. Second, HIPC is limited to indebted countries defined as "poor". This leaves out a poor country like Nigera with a per capita income of about US$ 800. Although Nigeria may resource rich, the state of existing absolute poverty (70 percent or 94 million Nigerians living below US$1 a day) is alarming. Nigeria's potential wealth may not be translated into actual wealth for several years to come given the daunting challenges of economic

governance. Third, the PRSPs are, in fact driven by the Bretton Woods Institutions and tend to be insensitive to the critical issues like unemployment affecting most African countries

5.4 Other Multilateral and Bilateral Arrangements

5.4.1 West Africa and EU

The European Union (EU) has a history of economic relationship with West Africa through the monetary mechanism of the French Franc to which the CFA Franc is linked, as well as the various agreements with African, Caribbean and Pacific (ACP) countries through various trade, investment and aid relations between Europe and the (ACP) countries since 1975. At the expiration of Lomé Conventions and now the Cotonou Agreement. The Conventions have defined various trade, investment and aid relations between Europe and the (ACP) countries since 1975. At the expirationof Lomé IV in February 200, a new relationship was proposed to include trade relations based on reciprocity between the EU and groups of African countries. The arrangement requires the formation of regional intergration schemes, between 2005 and 2015, from which Regional Economic Partnership Agreements (REPAs) will be established.[11]

The REPA arrangement being proposed has to be carefully examined in order to remove all elements of trade diversion and potentials for loss of fiscal revenue by the regional partners. If adequate compensation mechanisms are not built into the structure, it could weaken RECs and hence their ability to develop a sustainable debt resolution structure. The partnership in REPAS is not likely to be equal structurally and the offer of reciprocal trade links may not be as equitable as it sounds if the deal is between unequal partners.

5.4.2 West Africa and AGOA

The African Growth and Opportunity Act (AGOA) is designed by the United States governament to provide reforming African countries with liberal access to US markets. In 2001, the US approved 3 African countries as eligible for tariff preferences under the Act. The Us government has also announced the creation of US $200 million Overseas Private Investment Corporation support facility that will give American firms access to loans, guarantees and political risk insurance for investment projects in Africa. Since the AGOA is to be based on bilateral arrangements, some inputs from a REC could enhance its usefulness by clarifying the benefits to ensure that African firms have the ensavaged value addition from their participation. The debt issue constitutes one of the elements to be addressed within the AGOA framework. However, it must be noted that West Africa's regional integration especially the quest for monetary intergration through macroeconomic convergencecan easily be diluted by the impact of AGOA on individual countries of the region.

5.4.3 West Africa, the African Union and NEPAD

RECs such as ECOWAS and WAEMU are considered to be the rallying platform or building blocks for the establishmentof and Africa Union. The OAU Charter and the African Union Costitutive Act plus the Lagos Plan of Action and Abuja Treaty establishing the African Economic Community spell out the economic, political and institutional mechanisms that ensure the attainment of this goal. The goal of instituting and African Union is to break Africa out of the donor dependency cycle of slow growth, deprivation, mounting external debt and deepening poverty. Related to the inaugural meeting of the African Union in July 2002 is the New Partnership for Africa's Development(NEPAD)

which is a vision, a development agenda and integrate Africa into the global economy without marginalisation by promoting accelerated growth and sustainable development.

The new thinking is that the old argument of non interference in the internal affairs of African countries, must be abandoned and every African country is its 'brother's keeper'. Coupled with these efforts is the desire to create conditions conducive for investment, growth and development for the critical sectors of health, education, agriculture and information communication technology.

The African Peer Review (APR) mechanism in both the African Union and NEPAD will strengthen African ownership by allowing credible assessments of economic and corporate governance in African countries by Africans. It is also a platform around which the external debt burden of African countries including those in West Africa should be addressed. Morever, it will contribute to accountability, demostrating to African citizens and the international community that African countries have the political will and commitment to conduct self-monitoring and to take corrective action where needed.

The APR mechanism also offers the potential to transform African Countries' relationship with external partners especially the relationship between creditors and debtors. By providing a means for assessing progress towards mutually agreed perfomance targets and standards for both donors and recipients, it will move away from the old model of donor imposed conditionalities often associated with external loans and debt repayments. Mutual accountability is a core element of the new development paradigm endorsed by the NEPAD.

The impacts of other external arrangements on subregional RECs and debt sustainably include the conflict of interest and duplication of efforts caused by multiple membership in RECs like ECOWAS, WAEMU and MRU, the involvement in EU-ACP agreements reached through multilateral agencies like the WTO, World Bank and IMF and also the Paris Club and London Club bring with them their own conditions that are not necessarily favourable to either regional intergration or debt reduction.

Recommendations

Recommendations for strengthening regional integration are:

- A new approach to regionalism that focuses directly on the debt problem and goes beyond traditional trading systems. This new regional integration approach should tackle the issues of inflation and budget deficits with the aim of achieving, macroeconomic convergence for regional members.
- Restructuring and rationalisation of existing RECs to avoid the parallel objectives and duplication of functions that currently exists and that has led to waste of resources that could be channeled into addressing the debt overhang in the region.
- Use of regional development banks to provide development funds for members of RECs so that they can directly address the problem of indebtedness and use of debt as a development tool. This might involve the establishment of a learning culture and best practice in the use of external loan resources, and indirectly reduce the existing loan stock of member countries through efficient loan management.
- Move quickly towards a solution to the use of hard currency in intraregional commercial transactions in an environment where most non-CFA national currencies are non-convertible. The introduction of a regional currency for the non-CFA countries needs to be speeded up.
- The pursuit of macroeconomic convergence for the overall viability and competitiveness of the regional economy, especially for the reduction of the national and regional external debt, among other aims;
- Establishment of a regional framework for debt management as the generalised negative impact of indebtedness on regional development has compelled recognition of its negative externality and highlighted the need for a collective response. The framework will mount a collective response to the multilateral institutions, the Paris Club and the London Club in respect to the debt crisis in the region.
- In many West African countries, RECs should help in moderating political instability or the cessation of violence that, in turn, should improve investor and consumer sentiment and the resumption of official development assistance to some countries. Thus, the establishment of a conflict resolution mechanism in the entire region is an immediate requirement.
- In the context of improved political stability, form a cartel or formidable group to engage creditors in meaningful dialogue and negotiations concerning the region's debt overhang.
- Credible commitment mechanisms to reduce the risk of policy reversals and implementation failures. The proposed African Peer Review (APR) mechanism in both the African Union and NEPAD will build on the concepts of African ownership and mutual accountability.
- Promoting regional infrastructure, both 'core' items like roads, telecommunication and energy, and 'soft' ones like research, information, education, financial services, etc., towards the greater integration of the region and reduced dependency on external borrowing;
- Promoting awareness of the potential of RECs in resolving the debt crisis which can contribute to the budgetary prioritisation of financial commitments to the regional body;

and

Enhancement of the debt absorptive and management capacity of member countries so that future external loan resources are not wasted or corruptly used, thereby further worsening indebtedness. Debts should not be incurred for consumption purposes but for development projects. Strong checks and balances on these are necessary.

Conclusion

The economic rationales for a regional currency and monetary integration with specific reference to the debt crisis have been analysed. The costs include the loss of monetary independence and transition costs, while the benefits include the savings in transaction costs of using a single currency, savings in foreign reserves which can enhance intraregional trade, stimulation of economic integration, checking of illegal trafficking in currency, facilitation of stronger external debt negotiations and encouragement of macroeconomic stability through the promotion of greater convergence. With WAEMU's experience with economic integration and the recent moves towards monetary integration in ECOWAS through WAMI, the feasibility of a regional currency appears to be reasonably high.

It has been noted that intraregional trade in West Africa is low and that this is attributable to the non-diversified export base of West African economies, causing trade diversion to regions outside Africa, supply constraints arising from poor infrastructure in the region, and increased use of available export proceeds for sustaining import dependent development. West Africa bears testimony that Africa's integration has been slow and uneven. The average African country conducts only 8 percent of its trade with other African countries (UNECA, Economic Report on Africa 2002). Intraregional trade in ECOWAS has been low – hovering between 6 percent and 13 percent of the total regional trade between 1985 and 1988

It is clear that regional integration has multiple objectives and goals, all of which are developmental in nature. The focus and thrust of this paper has shown that the debt crisis should be a key subset of REC objectives, the implication being that any recommendation for strengthening regional integration can be expected to have positive implications for member countries' indebtedness. Among the lessons to be learnt from West Africa, one is that political stability and credible reforms enhance opportunities for integration and debt reduction.

Notes and References

[1] The debt-GDP ratios of other regions are 71 percent for East Africa, 42 percent for North Africa and 40 percent for Southern Africa (See African Development Bank's *African Development Report* 2001, Abidjan. Oxford University Press, pp. 42–104.

[2] See John Whalley, "Why do Countries Seek Regional, Trade Agreements?" *NBER Working Paper 5552,* National Bureau of Economic Research, Cambridge, Mass: Harvard University, processed.

[3] See V. P. Diejomaoh and Milton Iyoha (eds) (1980) *Industrialization in the Economic Community of West African States (ECOWAS)* Ibadan: Heinemann Educational Books Nigeria Ltd, pp. 467–468.

[4] African Development Bank (2000), *African Development Report 2000*, New York: Oxford University Press, p. 163.

[5] The debt dynamic equation is derived as follows: >From the debt-export ratio written as)d =D/X,.........(1) where D represents the stock of external debt and X the export, we differentiate (1) to obtain the change in debt stock as:
)d =)D/X – d.X...(2). Assuming the debt stock represents the current account deficit,
(M – X) the interest component can be separated allowing us to write:
)D = iD + M – X ....(3): When (2) is substituted into (3) and terms are rearranged we get the debt dynamics equation:
)d = d.(i - x) + (M – X)/ X.
See Janes Ross "Debt-Equity Swaps" in Peter Newman, Murray Milgate and John Eatwell (eds.) (1994) *The New Palgrave Dictionary of Money and Finance*. New York: The Macmillan Press Ltd, pp. 584–85.

[6] See Giancarlo Gandolfo "Monetary Unions" in Peter Newman, Murray Milgate and John Eatwell (eds), Ibid, pp. 765-770.

[7] See *2001 African Development Bank Annual Report* (Processed).

[8] See ECOWAS, *Annual Report 2001* pp. 26–27.

[9] Ibid.

[10] For elaboration of the principles of Variable Geometry See AfDB (2000), *African Development Report 2000*, New York: Oxford University Press, p 181–182.

[11] Ibid p. 200.

[12] See ECOWAS, *Annual Report* op.cit p. 99.

[13] Ibid pp 18-19.

[14] ADB (2000) Africa Development Report 2002, Oxford University Press, New York

[15] ECA (2002) Annual report on Integration in Africa 2002, Economic Commission for Africa, Addis Abba.

[16] ECA (2002) Economic Report on Africa, Economic Commission for Africa, Addis Abba.

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