West African Monetary Agency (WAMA)

WAMA BULLETIN

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EDITORIAL

Welcome to yet another edition of the WAMA News Bulletin. The topics in this edition include Corporate Governance in Banks which focused on the roles of the Board of Directors. The quality of corporate governance is critical for banks to perform their intermediation functions effectively. The article explores some ways in which such improvement can be achieved; the Regional Seminar on Payment Systems in ECOWAS mapped out ways of strengthening the development and interconnectivity in payment systems as a major step towards the achievement of a single currency in the sub-region; the Use and Acceptability of ECOWAS national currencies in intra-regional transactions identified as mechanism that could be used to enhance and promote trade and other transactions among member countries; there is also a report on the recent Association of African Central Banks (AACB) symposium on formulating monetary policy for inflation targeting in Africa which was a sensitization for participants who were supposed to implement these monetary policies in their various countries; there is also an article on the implementation of the National Accounting System and the various efforts made by African countries to strengthen themselves in operating better accounting systems; and some news on current events in the sub-region.

We hope you will find these articles interesting and look forward to comments from you to help us improve on our production.

Happy reading!!

CORPORATE GOVERNANCE IN BANKS: THE ROLE OF THE BOARD OF DIRECTORS

By Festus Odoko, Director of Research & Operations

Introduction

In several parts of the world financial institutions have faced challenging times in the recent past. The most affected have been banks which have suffered losses and even closures. A major cause of the problem has been traced to low quality assets in their portfolios that turned toxic which eroded their capital and weakened their ability to perform their intermediation function. The unpalatable outcome has been loss of confidence in the banking system with dire consequences for economic management. Without doubt, there has been a failure of corporate governance. In this article I shall dilate on the meaning and dimensions of corporate governance with particular emphasis on the role of the Board of Directors of banks.

Concept of Corporate Governance

Corporate governance has been defined as the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered or accountability of certain individuals in an organization, through mechanisms that tend to reduce or eliminate the principal-agent problem. The African Development Bank defines corporate governance as the mechanism that frames the duties and powers of corporations to deliver benefits to investors and those directly impacted by the corporation's activities. Corporate governance has attracted a lot of interest because of the importance of the economic health of corporations and society in general. The goal of every firm is to increase its shareholders wealth. As those who put financial resources at the disposal of companies they expect that such resources would be managed effectively and in a transparent manner to yield reasonable returns on their investment. But because managers may not always act in the interest of shareholders, the Board of Directors is constituted to monitor their activities.

Role of Directors and how they function

Usually the board of directors have the following responsibilities: Select competent executive officers, evaluate and compensate them accordingly; review and approve the management-developed strategy i.e. approve the overall risk-appetite of the institution; monitor the control of the environment; ensure that the necessary corrective actions are taken to remedy the situation; ensure the compliance of the institution with its legal and regulatory requirements; select competent board members; and establish guidelines to govern the board organization and structures. Directors are to perform these functions in the best interest of the shareholders and other stakeholders.

Current Interest in the Role of Directors

Much of the recent emphasis on corporate governance has arisen from high-profile corporate scandals, globalization and increased investor activities. In the US two major factors were responsible for the pressure put on the Board of Directors to do their jobs. First is the increased takeover market activity as a result of the mergers and acquisition of firms. The shareholders of both the potential acquirers and targets keep a close eye on their respective boards. The other reason was that the Securities and Exchange Commission required additional disclosure from companies with regards to executive compensation. Moreover, the SEC made it easier for shareholders to communicate with one another and large institutional shareholders took advantage of the rules to create stronger coalitions that put pressure on boards to challenge management.

Structure and Operation of Boards

In most climes, the board discharges its responsibilities through sub-committees. Usually, this enables the board to meet regularly, retain control over the institution and monitor the executive management. The major committees of the board are: the audit committee, the compensation committee, the risk committee, the nominating committee and the appointment and promotions committee.

As indicated above, the board of directors is expected to perform some critical functions and over time there must be a way to assess to what extent the board has been effective in the discharge of those functions.

Audit Committee

This committee monitors compliance with bank policies and procedures and reviews internal and external audit reports and bank examination reports. It is the board's responsibility to review the reports of independent auditing firms. Such reviews should include: scope of audit and auditor's conclusions, adequacy of the bank's internal controls and actions needed to correct existing deficiencies and solve problems, and bank's compliance with laws and regulations.

Loan Committee

It is established to monitor underwriting standards and loans quality and to ensure that lending policies and procedures are adequate. Also all new loans are reviewed by the loans committee either before or after funding, with the threshold for prior approval being the amount of either the loan or the aggregate debt of the borrower. It may also be responsible for maintaining an adequate reserve for loan losses.

Specifically, the Board should adopt a set of guidelines specifying the types, sizes, and maturity of loans which may be made, including procedures for reviewing loan applications and providing for periodic review of the bank's loan portfolio, as an appropriate method of setting policy for the vital lending function of the bank.

Investment Committee

This Committee monitors the bank's investment policies, procedures and holdings portfolio to ensure that the goals for diversification, credit quality, profitability, liquidity and regulatory compliance are met.

Difficulties in Discharging Board Functions

Recent developments show clearly that there are many problems with the organization of many corporate boards. Some of the problems are: lack of independence of directors, vested interest, inadequate time, and sometimes lack of expertise to carry out their obligations to shareholders. In discussing these problems I will draw heavily from the Nigerian experience.

In issuing the "Code of Corporate Governance for Banks in Nigeria post consolidation" the Central Bank of Nigeria listed some of such weaknesses to include:

1. Fraudulent and self-serving practices among members of the board, management and staff.
2. Weak internal controls.
3. Non-compliance with laid-down internal controls and operational procedures.
4. Poor risk management practices resulting in large quantum of non-performing credits including insider-related credits.
5. Abuses in lending, including lending in excess of single obligor limit.
6. Sit-tight Directors-even where such directors fail to make meaningful contributions to the growth and development of the bank.
7. Technical incompetence, poor leadership and administrative ability.
8. Inability to plan and respond to changing business circumstances.

9. Ineffective management information system.

For board directors to operate optimally there is need for independence. But such independence is often compromised because of the manner of appointment and the way they operate. There are those who are appointed because of their close relationship with the chief executive of the bank and therefore may not be in a position to challenge his decisions. Similarly, there are many directors who do not discharge the functions of their office satisfactorily because they do not have enough time to devote to the operations of the organization. This situation could arise as a result of several factors. One is that they may be holding directorship in several organizations thereby limiting their effectiveness in any one of them. Another reason may be that information may be passed to the directors so close to the meeting date that they do not have the time to read and digest the information contained in the papers. Some of the directors are appointed because of the amount of shareholding they have in the company. In such a case, they may lack the expertise necessary to contribute meaningfully to the decisions of the board.

As a safeguard, the selection and appointment committee of the board is expected to exercise due diligence in the appointment of members so that those appointed could contribute maximally to the work of the organization. Moreover in some countries, the selection of board members is subject to the approval of the regulatory authorities. In other words, the list of proposed board members is sent to the regulatory authorities and prior approval must be obtained before they could start to function. This is to ensure that the persons so appointed are proper and fit persons to occupy the lofty position of a bank director.

One of the factors hindering the effectiveness of boards is the availability of information. Therefore management information systems (MIS) should be established in such a way that it provides management with information necessary for effective management of the bank. MIS are used for monitoring different types of banking activities including risk management. The Board of Directors should formulate risk management policies and procedures that include mechanisms for identifying, measuring, controlling and monitoring risks. All information necessary for a director to make an informed decision should be distributed to directors in advance of the meeting to allow sufficient time for directors to consider the information. In form and substance, such information should be relevant, concise but complete, well organized, and supported by any relevant background data.

How Well have the Functions been Performed?

The Board of Directors of any business is expected to provide oversight and restraint to stop management excesses. The occurrence of scandals in several companies and the failure of banks is a pointer to the fact that several boards do not perform their functions satisfactorily. As we pointed out above, many directors may not be truly independent; they may be too busy and sometimes may not possess the requisite expertise to carry out their functions.

There have been instances when Bank Directors engaged in insider abuse by obtaining loans without collaterals and sometimes beyond permissible limits. Poor corporate governance has also been reflected in weak and ineffective internal controls systems and poor or lack of strategic planning. The recent global financial and economic crises posed serious challenges to businesses in general and banks in particular.

The lower government revenue meant less deposit for banks dependent on public sector for their deposit liabilities. The down turn in the capital market is occasioned by divestment by foreign investors, and loss of confidence and increase in non-performing loans from facilities granted to investors in the stock market. All of above developments brought the domestic currencies under pressure with consequent loss in value. A competent Board of Directors is expected to anticipate and respond effectively to changing business environment so as to keep the bank afloat. But several failed dismally on that account.

Furthermore, in a time of economic challenges it pays for the board of directors to strive for increased disclosure and transparency. It is only then that the regulatory authorities and the government can correctly judge the type and amount of assistance that can reasonably be provided to the banks.

Conclusion

In this short overview, we have underscored the importance of corporate governance and the need to ensure that board members perform their roles effectively. An important step is to select people with integrity. The need to build capacity in this area cannot be over emphasized. The introduction of independent directors is also a welcome development. The challenge of course is to keep them independent!

In the light of the above, it is critical that regulatory authorities in ECOWAS should urgently take steps to revise their codes of corporate governance and monitor the performance of boards of directors. That way, market confidence will be restored that will propel our economies towards prosperity.

REPORT ON REGIONAL SEMINAR ON PAYMEMT SYSTEMS DEVELOPMENT AND INTERCONNECTIVITY IN ECOWAS

By ALPHA I. Diallo, Principal Economist

The West African Monetary Agency (WAMA), in collaboration with the Bank of Sierra Leone, organised from 7 to 9 July, in Freetown, a seminar for payments systems operators on the theme “Payment Systems Development and Interconnectivity in ECOWAS”.

The aim of the seminar was to provide a status report on existing payments systems within ECOWAS and review progress made in this field as well as modalities for their interconnection and interoperability. This seminar served as a platform for exchange of views on payments systems, a key mechanism for achieving the objective of a single currency for ECOWAS.

Participants at the seminar were drawn from Central Banks, Commercial Banks, ECOWAS Commission, Nigeria Interbank Settlement System Ltd (NIBSS), Ghana Interbank Payments and Settlement Systems Ltd (GhIPSS), SWIFT (South Africa), Ministry of Finance and Economic Development of Sierra Leone, Association of Central Banks of Africa (ACBA) and European Central Bank (ECB).

During the opening ceremony, the Director General of WAMA, **Professor Mohamed Ben Omar Ndiaye,** expressed satisfaction at the number and quality of participants and recalled that the seminar was in pursuance of recommendations of the 36th ordinary meeting of the Committee of Governors of ECOWAS Member States which mandated WAMA to work in collaboration with Central Banks and other sub regional institutions for the development and interconnection of payments systems in West Africa, which is a key element of the road map designed for the establishment of a single currency within ECOWAS.

He indicated that the objective of the seminar was to propose a legal, regulatory and infrastructural framework that is adapted to current technological possibilities and can contribute to the development of trade and establishment of a common market within the ECOWAS space. Consequently, he deemed it important to make an elaborate review of the current status of payments systems within the sub-region in order to come out with relevant suggestions.

In his address, the representative of the ECOWAS Commission, **Dr. Nelson O. Magbagbeola,** after thanking WAMA for organizing this regional seminar, stressed on the importance of payments systems in facilitating cross border transactions and achieving a single currency as well as ECOWAS Vision 2020 which aims at moving from the ECOWAS of States to ECOWAS of people.

The Governor of the Central Bank of Sierra Leone, **Sheku S. Sesay,** in his remarks welcomed delegates to Sierra Leone and indicated that this seminar was being organized at a period marked by a difficult international environment with consequences that can be better addressed from a regional perspective and must serve as source of inspiration of our continuous efforts to integrate the sub-region. It is for this reason that he commended WAMA for this initiative and recommended that the meetings proceed with the review in order to provide advice on the best methods of interconnection/interoperability of payments systems with the WAMZ and UEMOA zones.

Mr. Javombo, welcomed participants on behalf of **Dr. Samura Kamara,** Minister of Finance and Economic Planning, and the Government of Sierra Leone. He stressed the importance of the seminar which, in his view, would help map out modalities for further integration of financial economies in West Africa. He warned that the currently envisaged ECOWAS single currency cannot play its role effectively as a medium of regional trade if payments systems are not interconnected or inter-operational. He therefore advised participants and regional institutions concerned to work in a concerted manner to address the issue of fast-tracking the process leading to the establishment of a common platform, taking into account recent technological innovations in the area of electronic payments.

Following the various opening remarks, presentations on their payments systems were made by the following Central Banks:

- Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)
- Central Bank of the Guinea (BCRG)
- Bank of Sierra Leone (BSL)
- Bank of Ghana (BOG);
- Central Bank of Nigeria (CBN);
- Central Bank of The Gambia (CBG).

Regional institutions like the (West African Banks Association, West African Monetary Institute) and some operators like the (Nigeria Interbank Settlement System, Ghana Interbank Payment and Settlement Systems, SWIFT) and the European Central Bank also made presentations.

After the presentations, participants became aware of the state of development of national and zonal payments systems currently available in the sub region and noted the significant advancement of electronic payments systems in some countries, especially in the UEMOA zone, in Ghana and Nigeria. Other countries such as Gambia, Guinea, and Sierra Leone were in the process of creating complete payments systems based on RTGS (Real Time Gross Settlement System) as part of the West African Monetary Zone project.

Subsequently, participants were divided into two groups to work on the following themes:

- Payments Systems Infrastructure;

- Legal framework, Challenges and Sources of Funding Payments Systems.

The choice of the two themes aimed at determining modalities for upgrading and harmonizing payments systems with the prospect of creating a future single currency within ECOWAS.

Discussions in Group1 on payments systems infrastructure helped to define a strategy for selecting infrastructures by identifying the types of infrastructure to be put in place, modalities for implementing the interconnection and accompanying measures and make organisational proposals to achieve the set objective.

Thus, three types of infrastructure were identified in order of priority, namely, RTGS (Real Time Gross Settlement System), electronic system (payments through bank cards, mobile phone, Internet etc.) and clearing system (Automated clearing house, automated cheques processing etc.).

The choice of RTGS is due to its importance in financial transactions. This system seems to be the most urgent to be put in place as it is being used by almost all ECOWAS member countries, which is an incentive for establishing the interconnection.

Furthermore, all the RTGS systems are built according to international standards which help reduce technical constraints of interconnection.

With regards to the electronic system, its choice is justified by its ability to reach a larger population, the diversity of its products, and reasonable cost of transactions, security and reliability of its use compared to cash. However, this system must be subject to EMV (European MasterCard Visa) standards.

The clearing component was chosen because of the common use of cheques and increases in the number of small amount transfers as well as secured processing due to automation.

However, in view of serious risks associated with cheques and diversity of banking laws, the group recommended that the clearing system to be limited initially to the national level.

Concerning modalities for implementing the interconnection, two options were proposed by the group:

- Interconnection between UEMOA and WAMZ when the WAMZ project is completed (with the finalization of the upgrading of payments systems in The Gambia, Guinea and Sierra Leone scheduled for 31 December 2011) ; and
- Interconnection of systems that are already operational (BCEAO, Nigeria and Ghana).

Group 2's discussions on the legal framework stressed the importance of this component and the need to have adequate laws to regulate transactions and protect the interest of users. In addition, the group noted the existence of relevant laws in some countries. In this regard, Ghana and Sierra Leone, for instance, have a law on payments systems which is in conformity with WAMZ standards while other member countries are carrying out the necessary legal reforms to comply with these standards. At the UEMOA level, it was noted that member countries had already harmonized their payments systems.

With regard to challenges to be addressed, the group identified problems relating to inadequate electricity supply, obsolete telecommunication infrastructure, low human resource capacity, high cost of transactions and interconnection difficulties etc.

After fruitful discussions, participants stressed on the need to have a common platform in terms of infrastructure and legal framework to facilitate payments and cross border transactions within ECOWAS and made the following recommendations:

- Setting up of a group of experts to work on issues related to building infrastructure, legal framework, sensitization and standardization of payment instruments;
- Drawing up of a clear and definite timetable and establishment of appropriate structures to ensure effective monitoring of the process of developing payments systems;
- Sensitizing of political authorities, stakeholders as well as citizens in order to secure their buy-in;
- Building the capacity of payments systems operators through the

establishment of links with universities and other training centres as well as operators within the region;

- Inclusion of appropriate articles on the administration of electronic evidence in laws on payments systems of member countries;
- Supervision of banks must be strengthened and extended to cover innovations in payment systems, protect consumers' interest and minimize possible risks;
- Evaluation of existing systems in the various countries in order to ensure their compliance with the standard required for their interconnection;
- Conclusion of exchange agreement between the various national currencies while awaiting the ECOWAS single currency.
- Identification of appropriate sources of funding (international donors, central banks and various stakeholders); and
- Establishment of secured and functional telecommunication infrastructure;
- Entrusting to WAMA the responsibility of ensuring the coordination of all activities relating to the development and harmonization of payments systems within ECOWAS, in accordance with its mandate;
- Speeding up the process of establishing a Central Switch to which all national Switches will be connected in the near future.

In his closing remarks, the Director General of WAMA, Professor Mohamed Ben Omar NDIAYE thanked participants for their positive contributions and expressed his sincere gratitude to the Sierra Leonean Authorities for their support and collaboration which made this seminar a success.

THE ISSUE OF CONVERTIBILITY OF ECOWAS CURRENCIES

By Dr. Andalla Dia, Senior Economist

Introduction

This note seeks to explain the essence of the use and acceptability of ECOWAS national currencies in intra-regional transactions. Besides, it provides proposals for a regional agreement on the convertibility of currencies.

Importance of the Convertibility of ECOWAS currencies,

Every country aspires to attain the highest level of convertibility of its currency. Within the context of economic integration on ECOWAS space, there are a number of reasons that make it imperative for Member States to develop an arrangement that will enable them use their national currencies in their intra-regional transactions. These reasons are linked to the need to:

- Save their limited foreign exchange reserves ;
- Reduce to the barest minimum risks and costs associated with exchange operations;
- Facilitate payments and transfers and promote the free movement of persons, goods and services as well as capital within the sub region ;
- Reduce the use of cash and resort more to banks for trade transactions within ECOWAS ;
- Strengthen monetary and economic integration and thereby accelerate growth in individual Member States of ECOWAS;
- Draw on the experiences of other African regions in the area of regional currency convertibility, countries with similarities to those of West Africa in terms of financial and economic conditions, especially Eastern Africa which comprises Kenya, Tanzania, Uganda,

Requirements for the Convertibility of ECOWAS currencies

Arrangements to ensure the convertibility of ECOWAS regional currencies must seek to solve problems associated with the political environment, institutional framework and operational modalities not only to achieve convertibility but to sustain it as well.

Political Environment

The project on the convertibility of regional currencies must be based on the following elements:

- A commitment of Member States to liberalize intra-community transactions in foreign exchange on a sequential basis, starting from the current account and moving on to foreign direct investments, and long term portfolio investments and finally to short term investments in **assets accounts** ;
- A commitment of member Central Banks to mop up or buy back excess liquidity in circulation in other member countries.

To ensure a viable convertibility

arrangement, Member States must among others:

- Remove restrictions to the import and export of national currencies as well as capital markets to allow transactions in these currencies at "the market rate » within the region ;
- Ensure the regional harmonization of economic and financial policies especially in the area of exchange rate management, monetary and fiscal policies, banking regulations, prudential rules and other statutory directives.

Institutional Framework

The institutional framework to be put in place to make the convertibility agreement operational must include:

- A central bank which has the autonomy required to manage currencies ;
- A good system of commercial banks with the power to deal with exchange transactions and operate an efficient money transfer and settlement mechanism ; and
- Foreign exchange bureaux to complement foreign exchange transactions of commercial banks.

To strengthen the viability and efficiency of the convertibility agreement, it is important to establish interbank correspondent relations between regional central banks as well as commercial banks and possibly with foreign exchange bureaux; establish and strengthen regional financial markets to ensure their integration.

Operational Modalities

As part of operational modalities of the convertibility agreement, each central bank must:

- Compile information on crossed exchange rates and other indicative rates of its currency and communicate them to authorized users ;
- Act in collaboration with other contracting central banks to ensure smooth operation of regional exchange markets ;
- Serve, among others as last resort buyers of excess money in circulation on the territory of other members.

The implementation and monitoring will require some obligations on the part of authorities both at the community and national levels.

Collective Measures

The collective measures required to ensure an effective implementation of the convertibility agreement project include:

- Harmonization of operational directives for operators using foreign exchange, the legal and regulatory framework of the financial system in the region as well as macroeconomic policies;
- Monitoring of the implementation to ensure compliance with macroeconomic and financial measures and regulations harmonized at the regional level, including legal

provisions on banking ;

- Compilation of a currency and financial data base at the regional level to help make informed decisions.

Individual Measures

The implementation of the convertibility agreement project imposes on contracting Member States the following special obligations:

- Maintain a stable exchange rate, a liberalized trade and payment regime, macroeconomic stability and adequate level of foreign reserves ;
- Establish an appropriate institutional framework such as the setting up of exchange bureaux where they are non existent and a network of interbank correspondents in the sub region;
- Provide information for the banking sector and develop a mechanism to monitor foreign exchange inflows within the framework of a liberalized financial market environment ;
- Comply with macroeconomic and financial measures and regulations harmonized at the regional level, including legal provisions on banking ;
- The implementation of the currency convertibility project must be supervised jointly by a permanent committee made up of representatives from contracting Central Banks, ECOWAS Commission, WAMA, WAMI and WABA

On the whole, considering that several ECOWAS member countries have already created the political environment and provided the institutional arrangements required more or less for the adoption of a convertibility mechanism for regional currencies, the strategy should be to agree to institute the convertibility of regional currencies within a reasonable timeframe and proceed to launch the agreement in Member States.

IMPLEMENTATION OF THE 2008 SNA: AFRICA FINE-TUNES ITS STRATEGY

By Alhassane Diallo, Statistician

The 2008 System of National Accounts (SNA) which was recently adopted maintained the 1993 theoretical framework and concepts. However, it now covers the processing of new aspects of economies which have become prominent, provides details on aspects that have gained some importance in recent years, gives further information on the analysis of some phenomena and provides clarifications on posting transactions involving a given range of goods and services. In sum, the 2008 SNA is adapting national accounts to new developments in economic environments, advancement in methodological research and users' needs.

The major improvements brought to the 1993 SNA can be grouped into six main headings:[1]

i. An improved definition of characteristics of statistical units and revision of the division of institutions into sectors ;
ii. Additional details on the scope of transactions, including production boundary ;
iii. Extension and details on concept of assets, capital formation and fixed capital consumption ;
iv. Clarifications on the processing and definition of financial assets and instruments ;
v. Better delimitation of government operations and the public sector on the whole ;
vi. Harmonization of concepts and nomenclatures between the SNA and the 6th edition of the Balance of Payments Manual (BPM6).

Drawing lessons from delays recorded by many African countries in shifting from the 1968 SNA to the 1993 SNA, African organisations, especially, African Development Bank (ADB), African Union Commission (AUC) and Economic Commission for Africa (ECA) wanted to make the first move this time around. In fact, these institutions have realized quite early the need to define an implementation strategy for the 2008 SNA. The process adopted is a participatory approach which involves all stakeholders, including countries, regional and sub regional organizations. It is within this perspective that the African Group of National Accounting (AGNA) was set up in January 2008 under the leadership of ADB.

The AGNA approach is based mainly on the definition of a programme that will help maximise the chances of implementation of the 2008 SNA within a reasonable timeframe. In this regard, a scheme which states the strategic objectives and axis has been developed. The strategy adopted comprises seven axes which would, among others, help equip the continent with the endogenous

[1] For further details see appendix 3 of the 2008 SNA

capacity for preparing economic accounts that meet international standards while taking into account African specific realities and various levels of development on the continent. For each axis, specific objectives were defined together with activities that will be implemented to achieve these objectives.

The overall objective is to resolve problems resulting from inadequate statistical capacity, poor institutional coordination and inadequate sources of data. More specifically, the strategy aims at compiling national accounts which are responsive to African economic peculiarities and meet the 2008 SNA requirements.

In this regard, the African programme lays special emphasis on developing an African national accounting system, improving economic accounts using data and indicators obtained from the International Comparison Programme for Africa (ICP- Africa) and building capacity for the preparation, analysis and dissemination of national accounts. On the whole, the strategy reflects the will to develop statistical works within a consensus framework.

According to the agreed schedule, the implementation of the strategy would cover the period 2010 -2014. Consequently, the AGNA is currently working to develop a five-year action plan which will define activities to be implemented at the national, sub regional and regional levels.

Concerning implementation, it must be done in accordance with the regional coordination scheme in line with the regional reference strategic framework for building statistical capacity in Africa (RRSF). At the regional level, the ECA, Africa Union Commission and ADB will be involved. And at the sub regional level all economic communities[2] will be included in the process. AFRISTAT has been retained as technical consultant for the development and implementation of the strategy.

On the operational front, the strategy retained is essentially based on building institutional capacity, identifying sources of data and indicators and compilation of a series of essential tables and accounts. To facilitate the assessment of each activity of the programme, each activity under the programme, the expected results, scope and indicative targets and performance indicators have been attached.

With regards to financing, funds will be mobilized at the national, sub regional and international levels.

At the ECOWAS level, a meeting held in Niamey from 5 to 9 October 2009 agreed on the idea of setting up a working group on the 2008 SNA. This group which is to be chaired by the ECOWAS Commission comprises Burkina Faso, Cote d'Ivoire, Ghana, Mali, Niger, Nigeria Sierra Leone and all regional institutions (WAMA, WAMI, UEMOA and

[2] ECOWAS (Economic Community of West African States), COMESA (Common Market for Eastern and Southern Africa), UMA (Maghred Arab Union), SADC (Southern African Development Community), CEEC (Economic Community of Central African States.

AFRISTAT). The main basis of the terms of reference of the working group were defined during the said meeting. Work is expected to start at the beginning of 2010.

As shown, Africa and ECOWAS do not want to be left at the margins of the 2008 SNA implementation.

REPORT ON THE AACB SYMPOSIUM ON 'FORMULATION OF MONETARY POLICY IN AFRICA: RELEVANCE OF INFLATION TARGETING'

By Alieu Ceesay, Economist

Introduction

The 33rd Ordinary meeting of the Association of African Central Banks (AACB) was held in the Grand Hotel, Kinshasa, Democratic Republic of Congo (DRC) from 17-21 August 2009. The 17-19 August was for the Technical Committee, while the 20th and 21st August, was for the symposium as well as the AACB Committee of Governors Meetings. The Director General of WAMA was invited to make a presentation during the Symposium, on the theme "Formulation of Monetary Policy in Africa: Relevance of Inflation Targeting". The objective of this seminar was to sensitize participants on new techniques in inflation targeting and their relevance for developing countries and to address the capacity needs of the various central banks to be able to effectively implement Inflation Targeting (IT).

Presentations

Presentations were made on the following sub-themes: (i) Inflation Determinants in Africa by David Dunn, Principal Economist, Africa Department of the International Monetary Fund and Macroeconomics Professor, Kabuya Kalala, University of Kinshasa; (ii) Control of Inflation and Targeting Policies: Exchange Rates and Money Supply by Professor Michael Normadum of the Institute of Applied

Economics; (iii) Review of Institutional Economic Pre-requisites for Targeting Inflation by Mr. Hubert Kempt, Head of Relations Department, Bank of France and (iv) Exchange Rate Regimes and Inflation Targeting by Professor Mohamed Ben Omar Ndiaye, Director General of WAMA.

The presentations highlighted the characteristics of Inflation Targeting (IT), pre-requisites of IT, experiences with IT in Africa and Emerging countries, relevance of IT especially in view of current global crises as well as the challenges for implementing IT as a monetary policy framework. Specifically, the presentation of the Director General of WAMA dilated on the choice of an exchange rate regime and the implications for inflation targeting, it concluded with some recommendations which were highly appreciated and largely stimulated the discussions that followed.

The Central Banks of Ghana and Mauritius made presentations on their experiences on inflation targeting which underscored the fact that there are several challenges in implementing IT especially in an African environment which calls for careful reflections and maximum caution before adopting this monetary policy framework.

The BCEAO, Central Bank of Nigeria (CBN) and Central Bank of Congo shared their experiences in controlling inflation drawing out significant lessons, for the other countries and institutions present at the symposium.

All the presentations delved into the increasing attractiveness of inflation targeting as a monetary policy option. As a result, it was deemed necessary to pinpoint the key necessary conditions for the success of inflation targeting that cut across all the presentations.

First and foremost, there must be institutional commitment assuring that the central bank's primary objective is price stability. This commitment can take the form of a legislative framework supporting the independence of the central bank. What this independence does, amongst other things, is to liberate monetary authorities from fiscal obligations linked to financing of public debt/deficits, where these obligations may be in conflict with the objective of price stability. To the extent that central bank independence would be more pronounced under a monetary union, countries desirous of implementing IT should as a matter of expediency also work towards the realization of ECOWAS single currency as the two objectives could be mutually reinforcing.

Another pre-requisite for the success of IT that was underscored was the need for monetary policy transparency. This condition requires that monetary authorities inform the public of the plans, objectives and decisions involved in its policy. Among other things, this means disclosure of the point or range of the inflation target, as well as publication of official documents, clearly stating the central bank's assessment of how well its monetary policy is managing to control inflation.

Furthermore, the central bank must be held accountable for its success (or failure) in attaining its objectives. It's important that these objectives be attained, since this is the condition required to ensure the credibility of the central bank in the public domain.

Finally, it was also highlighted that monetary authorities must analyse the trend of a large number of macroeconomic variables, which provides the global perspective needed to implement the inflation targeting policy.

Emerging Issues

Following the various presentations and deliberations, the following issues emerged:

Inflation targeting as a monetary policy framework is gaining widespread acceptance especially in the light of instability in money demand functions and velocity of circulation. This is because monetary targeting assumes constant velocity and stable demand for money, which may not be the case, given the financial liberalization measures/financial innovations.

Although IT is a demanding policy, its adoption would ensure central bank accountability to the public, thus boosting the credibility of the central bank in the conduct of monetary policy.

Should Central Banks concentrate on their traditional role of ensuring price stability or take on other macroeconomic objectives such as growth and poverty reduction?

Is IT more appropriate within a fixed, flexible or managed exchange rate regime?

The determinants of the inflation are country-specific and call for country-specific research to identify the key explanatory factors/variables. This would be a useful guide as to whether IT could be implemented effectively or not.

Should core or headline inflation be targeted by monetary authorities and which one of the two should be pursued as a convergence criterion?

Are the assumptions of stable demand for money and constant velocity of circulation realistic in the light of developments in financial sector liberalization/innovations and other external shocks?

Is the independence of the central bank conceivable in the absence of a monetary union and a common central bank?

Can IT be operated alongside an expansionary fiscal policy (fiscal dominance)?

Conclusion

In the light of the above emerging issues and following deliberations, the following conclusions and recommendations were made:

-The independence of the Central Banks should be understood as operational independence within government and not outside government. However, operational independence of the Central Bank is enhanced in a monetary union

-The price stability role of the central bank is also consistent with overall macroeconomic growth objectives and therefore poverty reduction

-There is need for coordination between monetary and fiscal authorities to guard against frustrating the efficacy of monetary policy by excessive fiscal expansion.

-Although IT may be demanding as a monetary policy framework, almost all the countries that adopted IT managed to lower inflationary pressures

-IT ensures transparency in monetary management and therefore helps to boost the credibility of Central Banks.

-IT could be better implemented under a managed floating exchange rate regime as opposed to a fixed exchange rate regime.

-Countries should be encouraged to conduct research on the determinants of inflation as well as to critically review the various components of the CPI in order to enhance implementation of IT.

In view of the above, it could be concluded that the symposium was relevant for WAMA especially given that WAMA is currently conducting studies on the determinants of inflation in the sub-region and its member countries are considering adopting IT as a monetary policy framework.

NEWS FROM AROUND THE WORLD

THE INTERNATIONAL CONTACT GROUP ON GUINEA

The International Contact Group on Guinea (ICG-G) which was chaired by the Economic Community for West African States (ECOWAS) and the African Union (AU) was set up to advocate for a new transitional authority in Guinea and the withdrawal of the National Council for Democracy and Development (CNDD). The group emphasized that a proposed transitional authority should ensure a short and peaceful transition in Guinea marked by the conduct of credible, free and fair elections in which those holding key executive positions should demonstrate total neutrality throughout the electoral process.

At the end of the one day meeting at ECOWAS Commission in Abuja, the group came up with a 12 point communiqué that expressed its full support for a political solution to the Guinea crisis aimed at creating a transitional authority through dialogue. The group called on the President of the CNDD, Major Moussa Dadis Camara, to formalize his commitment that neither he nor members of his party would contest the elections and called on all stakeholders, regional and international to take appropriate measures to effect this decision.

The group also called on the United Nations Secretary General Mr. Ban Ki Moon to facilitate the setting up of an international commission to investigate the gross human rights violations of 28th September 2009 in Guinea and recommended punitive actions that would end such violations and massacres in the future. They also demanded that all those who were illegally detained should be released, the bodies of victims handed over to their families, medical care be made free for the sick and wounded and the implementation of freedom of movement and liberty for all in the country.

They also raised the concern about the circulation of arms and ammunition in the country and reiterated the responsibility of the authorities in Guinea to protect lives and property, and to allow free movement of citizens. The ICG-G is scheduled to meet at least once every two months to ensure that there is peace and calm in Guinea.

REFLECT ON THIS AND ACT

What is the Difference between Rich and Poor Countries?

The difference between the poor countries and the rich ones is not the age of the country. This can be shown by countries like India and Egypt that are more than 2000 years old and poor. On the other hand, Canada, Australia and New Zealand, that 150 years ago were inexpressive, today are developed countries and are rich.

The difference between poor and rich countries does not reside in the available natural resources. Japan has a limited territory, 80% mountainous, inadequate for agriculture and cattle raising but it is the world's second largest economy. The country is like an immense floating factory, importing raw materials from the whole world and exporting manufactured products.

Another example is Switzerland, which does not plant cocoa but has the best chocolate of the world. In its little territory they raise animals and plant the soil during four months in the year. Not enough, they also produce dairy products of the best quality. It is a small country that transmits an image of security, order and labour, which makes it the world's strong safe.

Executives from rich countries who communicate with their counter- parts in poor countries show that there is no significant intellectual difference. Race and skin colour are also not important. Immigrants labelled lazy in their countries of origin are the productive power in rich European countries and the United States of America.

What then is the Difference?

The difference is the attitude of the people, framed along the years by the education they received and the culture in which they lived. On analyzing the behaviour of people in rich countries, we find that the great majority follow the following principles in their lives:

- Ethics as a basic principle of life
- Integrity and transparency in their operations

- Responsibility and commitment to work
- Respect to the laws and rules of institutions and the nation
- Respect for the rights of other citizens
- Strive for savings and investments
- Strive for Super action and good results
- Punctual and regular at tasks

In poor countries, only a minority follow these basic principles in their daily lives. We are not poor because we lack natural resources or because nature was cruel to us. We are poor because of our attitude to situations. We lack the will to comply with, and teach these functional principles of rich and developed societies.