



ECOWAS FINANCIAL SECTOR DIALOGUE

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I.0 Background

- WAMZ Member States include: The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone
- The Financial Sector in the Six Member States of the WAMZ are at different levels of development
- General improvements in WAMZ financial market infrastructure lately, though challenges abound
- Cross-border flows limited due to non-linkage of RTGS & other payment infrastructures of Member States
- Only 3 Member States (Ghana, Nigeria) and Sierra Leone? have functional exchanges
- Non-convertibility of WAMZ currencies limits trade and fund flows



2.0 Financial Integration in the WAMZ

- Financial integration is an integral part of the WAMZ program due to the disparity in financial development in Member States and its role in facilitating seamless changeover to the single currency when introduced
- Integration of the WAMZ financial market would make the Zone resilient to asymmetric shocks, thereby promoting financial stability
- An integrated WAMZ financial market is essential for the implementation of a common monetary policy



2.0 Financial Integration in the WAMZ

Strategic Objectives

The WAMZ financial integration programme seeks financial integration through:

- ✓ *adoption of financial stability framework and development of cross-border banking supervision*
- ✓ *capital market integration in West Africa;*
- ✓ *payments system development, and*
- ✓ *promotion of regional currency convertibility/quoting and trading in WAMZ currencies;*



3.0 ECOWAS Single Currency Programme

- Established in 2000, WAMI was mandated to undertake policy and technical preparations for the launch of a monetary union for the WAMZ
- The establishment of the WAMZ was in line with the two-track approach to monetary integration of ECOWAS
- WAMI's mandate was redefined by the Banjul Declaration (2005) and the Abuja Action Plan (2009) to include trade, financial integration, institutional and capacity building issues
- Member States inability to meet the minimum convergence criteria as well as structural benchmarks delayed the proposed merger of the 2 blocs



3.0 ECOWAS Single Currency Programme

- In May 2009, two deadlines were adopted to fast-track ECOWAS Single currency:
 - ✓ *the WAMZ single currency was to be launched in January 2015 and*
 - ✓ *the merger of WAMZ and UEMOA to create a single currency for all ECOWAS Member States in 2020*
- By end-2013, the 2015 planned WAMZ single currency was seen as not feasible
- The Authority of Heads of State and Government in 2014 established the Presidential Task Force on ECOWAS Single Currency Programme and in 2015 expanded its membership
- The two-track approach was changed to a single track – That's where we are now



4.1 Banking Sector Integration

- **WAMZ** has a **College of Supervisors, the CSWAMZ**, established in 2011
 - **The Model Act for Banks and Financial Holding Companies** was recently approved for adoption
 - **WAMI** has commenced work on the **Model Act for Non-Bank Financial Institutions in the WAMZ**
 - **The Revised CSWAMZ Charter** was recently approved for adoption
 - **WAMI** has produced a draft **Banking Crisis Resolution Framework** for the Zone

4.1 Banking Sector Integration

- Member States continue to jointly examine Nigerian bank subsidiaries in the Zone. The subsidiaries include: Access, FBN, GT, UBA and Zenith banks
- On **declining Correspondent Banking Relationships (CBRs)** in the WAMZ, a WAMI study revealed ALM/CFT concerns as key risk element informing the decline in CBRs. The menace has however, abated in Member States
- WAMZ Financial Stability Report (FSR) is published regularly. **Future publication would include analysis on stress testing**
- Major threats to financial stability in the Zone are **High level of Non-performing Loans** and Regulatory challenges stemming from innovative technology, which include potential threat of cyber-security

4.1 Banking Sector Integration – Next Steps

Establishment of Deposit Insurance Scheme in Member States

- While Nigeria has a deposit insurance institution, Ghana is in the process of establishing one.
 - Other Member States are encouraged to establish one as part of the framework for banking sector resolution
- However, Member States would require assistance with establishing deposit insurance schemes

4.1 Banking Sector Integration – Next Steps

Unique Identifier (Bank Verification Number) System

- Nigeria has implemented the Bank Verification Number (BVN) scheme, while Ghana has started the registration of its citizens
- All Member States are encouraged to have a unique identifier (bank verification number) system for proper profiling of bank customers
- WAMI was directed to source for funding for the implementation of Unique Identifier in the Zone
- The Institute has not been able to secure the needed funds to implement the project in Member States

4.2 Capital Market Integration

- The West African Capital Market Integration Council (WACMIC) is spearheading the integration process, in 3 phases
- Guidelines and standards for phases 1 and 2 were adopted in 2015 and cross-border securities trading under the phase 1 has been commenced
- The West African Securities Regulators Association (WASRA) requested for a review of existing guidelines on phases 1 & 2
- In April 2018, WACMIC finalized the review and forwarded the document to WASRA for consideration and subsequent submission to ECOWAS Authorities



4.2 Capital Market Integration

- Challenges inhibiting the successful implementation of the capital market integration programme include:
 - ✓ *The delay by WASRA in approving the phase 1 and 2 documents, remained a major challenge, particularly for the francophone Member States*
 - ✓ *Cash settlement challenges arising from different currencies*
 - ✓ *Uneven capital market development among member states of ECOWAS*
 - ✓ *Low awareness at various levels such as policy, and market operators*
 - ✓ *Few number of trades due to lack of interest by market operators*
 - ✓ *Lack of common platform for information sharing*
 - ✓ *Lack of common forum for interaction between WASRA and WACMIC*

4.2 Capital Market Integration

- Potential Solutions to advancing capital market integration in the Zone, include:
 - ✓ *Approval by WASRA of the phase 1 and 2 documents*
 - ✓ *While ECOWAS continues to work towards achieving the single currency, there is need, in the interim, to fast-track the quoting and trading in the local currencies, which will be supported by the platform for cross border trade and settlement proposed by Afreximbank;*
 - ✓ *Support by WACMIC of the process of developing the capital markets of Member States;*
 - ✓ *Relaxation of the restrictions on pension funds investment in the market;*
 - ✓ *Creation and implementation of the ongoing common website for information sharing purposes by WACMIC;*
 - ✓ *WAMI as the Secretariat of WACMIC to intensify efforts at conveying regular meetings of both WACMIC and WASRA in order to ensure the quick resolution of pending issues (funding is a critical factor).*

4.2 Capital Market Integration – Next Steps

- In phase 3 there will be a common (virtual) securities market mirroring all participating exchanges. This will require a significant amount of funding for implementation – Estimated implementation cost is about US\$6.0 million



4.3 Bonds Market Development

- The domestic debt market in the WAMZ Member States is generally underdeveloped
- Debt markets in The Gambia, Guinea, Liberia and Sierra Leone are characterized by few money market instruments, while the market for bonds is relatively non-existent or at a nascent stage
- In early 2018, WAMI produced a comprehensive project document for the development of the debt markets in Member States
- To achieve this task, early this year, WAMI in conjunction with the African Development Bank (AfDB) conducted a Scoping Study Mission for the development of domestic debt market in The Gambia, Guinea, Liberia and Sierra Leone

4.3 Bonds Market Development – Next Steps

- WAMI is awaiting the decision of AfDB to develop the debt market in Member States

4.4 Insurance Market Integration

- WAMI developed a work-plan for integrating the regional insurance market
- **Next Steps:**
 - Study visits have been planned to survey insurance legislations in the ECOWAS countries to aid preparation of a draft harmonised legislation to be submitted to ECOWAS for adoption
- Stakeholders engagement currently ongoing, particularly, The West African Insurance Supervisors Association (WAISA)



4.5 Payments System Development Project in the WAMZ

- Upgrade of payment system infrastructure (valued at US\$30 million and funded by AfDB) completed in 2016 for The Gambia, Guinea, Liberia and Sierra Leone
- The next phase of the project relates to interlinking the RTGS of Member States of the WAMZ for cross-border payments. WAMI is collaborating with Afreximbank to pilot the project, under the **Pan African Payment and Settlement Platform (PAPSP)**.
- WAMI participated in a joint mission with Afreximbank for the PAPSP.
- This provided the needed opportunity for Stakeholders' engagement in all WAMZ Member States to sensitize and educate concerned parties and also gauge their expectations and buy-in of the PAPSP project.



5.0 WAMI's Activities under the ECOWAS Single Currency Programme

- The ECOWAS roadmap adopted in February 2018 and to be implemented by 2020, contains 39 activities valued at a cost of US\$6.0 million
- Activities assigned to WAMI under the programme borders on financial integration, specifically, the adoption of regional accounting and financial reporting framework



5.0 WAMI's Activities under the ECOWAS Single Currency programme

Adoption of International Financial Reporting Standards (IFRS)

- All WAMZ Member States, but Guinea, have adopted IFRS in line with financial sector convergence
- Two Member States (Ghana and Nigeria) have adopted IFRS9, while the rest are engaging their respective industry players and building capacity on the standard for immediate adoption
- ***The ECOWAS Commission approved an amount of US\$100,000.00 and WAMI has received US\$50,000 of that amount, for the implementation of some aspects of this activity***

6.0 Prospects

Looking ahead WAMI will assist Member States in the following areas:

- The development of the domestic debt market in the WAMZ
- Facilitate the establishment of stock exchanges in the remaining Member States
- Work towards integrating existing stock exchanges in the WAMZ
- Work towards creating a common platform for interactions among insurance regulators in the WAMZ
- Source funding for the implementation of Unique Identifier (Bank verification Number) System
- Encourage Member States to establish deposit insurance schemes – Technical and financial assistance would be required
- Capacity building and stake holder sensitization is critical



7.0 Conclusion

- The integration of financial markets is a key policy to promote efficiency and growth of the financial sector across Member States
- Ultimately, the foregoing financial sector programmes are critical to increasing access to finance, as well as ensuring financial system stability, among others
- It is imperative therefore, that all stakeholders continue to support the integration process in the region
- However, funding is required for massive sensitization of citizens of Member States on every programme being implemented



Thank You