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EXCHANGE CONTROL AND ITS IMPACT ON THE EXPANSION OF INTRA-AFRICAN TRADE

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We have assembled here today to examine critically the subject of Exchange Control in an effort to know how far it affects the intra-trading activity of Africa. Although the topic covers the whole of Africa we would restrict our discussion to the situation in the West Africa subregion since by and large there is great similarity in problems associated with exchange controls affecting trade among the countries of the subregion and those among the countries of the continent as a whole. Within the subregion our attention will be focused on the thirteen countries associated with the West African Clearing House.

Exchange controls instituted in each of these countries are for a number of reasons. Among these are economic, colonial attachment, balance of payments, political, social and other considerations. Of these, however, we observe that the first three are the major moving factors behind the exchange controls. The economic factor enables each of the countries to achieve a set of economic growth targets best suited to the nation. On the other hand due to colonial attachment we observe that there is diversity of monetary systems in the Sub-Region. Of the thirteen countries forming the subregional Committee six with French attachment (Benin, Ivory Coast, Niger, Senegal, Togo and Uppper Volta) form a single monetary unit under the umbrella of a single issuing institution (BCEAO) while the other seven (Gambia, Ghana, Guinea, Liberia, Mali, Nigeria and Sierra Leone) operate an autonomous payment system. As regards balance of payments problems, we observe that some countries such as Ghana experience persistent and acute problems whilst others like Liberia have little or no problems associated with balance of payments. In this context there is wide disparity in the severity of exchange restrictions ranging from rigid exchange controls in some countries to no controls in others.

Following is a survey of exchange controls in the thirteen member countries of the West African Clearing House.

1. BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST (BCEAO)

There is a general similarity in the exchange system of member countries of the BCEAO. Exchange Control systems of these countries do not apply to France and Monaco and all countries whose bank of issue is linked with the French Treasury by an Operation Account except transactions on gold. In view of this, payments to member countries are freely made whilst transactions with all other countries are subject to exchange control.

Usually, one large institution in these countries has a monopoly over importation of some staple commodities. In most cases imports of all other goods from the French Franc Area which are not prohibited on health reasons may be made freely without an import licence. There is liberal treatment for imports from the EEC countries whilst an import programme exists setting a global quota for imports from all countries outside the French Franc Area. Special programmes are also drawn establishing quotas

Bank at the time of making investment to ensure subsequent transfer of capital and remittance of profits after provision for taxes and other liabilities incurred in Gambia. Loans and advances to non-residents are subject to the approval of the Central Bank.

3. Ghana

Since 26 August 1978 the parity rate of the national currency, the Cedi, has been ₵2.75 = US$1. Different effective exchange rates arise on account of a tax of 30% on travel allocations, for certain export proceeds as a result of an export bonus scheme and for certain import payments as a result of mandatory cash margin deposits against letters of credit.

The Controller of Imports and Exports at the Ministry of Trade and Tourism is empowered to prohibit, regulate, or license the import and export of all goods. The Exchange Control Department of the Bank of Ghana administers the allocation of exchange for payments for invisibles and capital. Permitted foreign exchange transactions must be made through authorised banks. Imports of certain goods are prohibited; these include virtually all textiles and textile products. Imports of certain goods which are produced in Ghana, luxuries and goods deemed harmful to health or public order are specified in a list of restricted imports and are severely restricted. Certain basic items such as rice and sugar and others as may be designated by a competent authority may be imported only by the National Procurement Agency. There is an open general licence which permits any importer to import freely trade samples, personal effects, small gifts, single copies of publications domestic pets, headloads of foodstuffs from neighbouring countries, fish caught by Ghanaian-owned vessels, and re-imports. All other items require either a specific import licence or a special unnumbered licence for which transfer of foreign exchange has not been or will not be involved. There is a list of commercial imports eligible for specific licences. Otherwise specific import licences are only isuued for items that are considered essential. Licences are issued on a cost and freight basis and are endorsed to the effect that insurance must be covered in Ghana. Cash margin deposits are prescribed on the opening of letters of credit for virtually all categories of imports but the rate varies from one category to another. Goods valued at US$2,000.00 f.o.b. and above are subject to pre-shipment inspection to ascertain their price, quality and quantity. A graduated licence fee is payable on the c.i.f. amount of the specific import licence issued for most commodities.

Exports are subject to export licence and exporters are required to collect and repatriate the proceeds from their exports within 60 days of shipment and surrender them to a commercial bank. Exporters of all goods except cocoa are granted export bonus of 10% on the value of export made.

All payments for invisibles require Specific exchange control approval. The amount of travel allowances granted is at the discretion of the Exchange Control Authority.

All capital movements associated with foreign investments are subject to exchange control approval.

4. Guinea

Exchange control administration is vested in the Central Bank. All settlements with foreign countries including payments for imports, require the Central Bank's approval.

Foreign trade is a state monopoly. Import and export licences are issued by IMPORTEX, a state enterprise, within the framework of annual import and export programmes.

All imports, other than those under the Five Year Plan, require individual lincences. With an import licence, authorization for payment is granted by the Exchange Control Office of the Central Bank. Annual import programme based on the sources of imports, availability of convertible currency and of balances under payments agreements. Imports for which foreign exchange is derived from sources other than the exchange resources of Guinea e.g. by "mixed economy companies" are effected outside the import programme.

All payments for invisibles require the authorization of the Exchange Control Office, irrespective of the country to which the payment is to be made unless financed from retained export proceeds. Payments for freight and insurance in connection with imports are authorized as part of the import licence.

There is no basic allocation for tourist or business travel - each application is considered individually. Transfer of 40% and 30% net monthly salaries for expatriate employees in public and Private Sectors are respectively allowed. And 20% of the net annual profits of approved foreign investments may be transferred abroad.

Exports require individual licences from IMPORTEX. In addition special authorization from designated agencies is required for some specified commodities. An export licnece is granted only when the exporter assumes the obligation to surrender the proceeds immediately after they are collected. Mixed economy companies are allowed to retain their export proceeds in order to pay for their imports, their operating requirements and to service their external debts. All other export proceeds accruing to residents must also be surrendered.

All capital transfers require authorisations. Outward capital transfers by Guinean nationals are prohibited.

5. Liberia

The parity rate of the local currency, the Liberian Dollar, is $1 = US$1. The United States currency is legal tender in Liberia and it circulates along with Liberian coinage. Official accounts are kept in US. dollars and cents. There is no exchange control and there are no restrictions on foreign exchange transactions. There is also no general system of import control. Exports are treated liberally and it is only in some cases that export licences are required. Even so, they are mainly to enforce taxation or to assure certification of quality and origin. The surrender of export proceeds is not required. No capital control requirements are imposed on capital receipts or payments by residents or non-residents.

6. Mali

The official rate of the national currency, the Mali Franc, is MF1 = 0.01 French Franc and it is fixed at MF2 = CFA1.

With the exception of those relating to gold, Mali's exchange control measures do not apply to France, Monaco and all other countries whose bank of issue is linked with the French Treasury by an Operations account. Hence, all payments to these countries may be made freely. All other countries, except Mali itself are considered foreign countries and financial transactions with them are subject to exchange control.

Apart from imports prohibited for health and social reasons, imports of all goods, irrespective of origin, require individual licences. Imports are licensed in accordance with an annual import programme, comprising an allocation for clearing account countries and one for the convertible currency area (including the French Franc Area). An allocation commission establishes quotas for each private importer on the basis of his turnover. In addition, importers may with an import licence import any goods under the EXIC(Exportation et Importation Concomitante) procedure, under which exporters may retain 75% of proceeds from exports from commodities of the traditional sector for payment for their own imports that are made through regular official channels. All other exports to foreign countries must be domiciled with an authorised bank and export proceeds received in currencies other than those of France or other Operation Account countries must be surrendered. Imports of merchandise originating from the member countries of ECOWAS are allowed duty free and payments for such imports are unrestricted; the import licence requirement is only for statistical purposes.

Similarly payments for invisibles to France and other Operation Account countries in the French Franc Area are permitted freely; those to other countries are subject to approval. Receipts from transactions in invisibles with France and other Operation Account countries may be retained. All amounts due from all other countries must be collected and surrendered. For tourist travel, residents travelling to countries outside the French Franc Area may be allocated MF500,000.00 a person which may be taken up once a year in whole or in part. For business travel, there is a specific allocation of MF500,000.00 a trip for a maximum of 3 trips. Foreigners who work in Mali are permitted to transfer the entire amount of their emoluments.

Capital movements between Mali and countries of the French Franc Area are free of Exchange Control. Capital transfers to all other countries require exchange control approval and are restricted, but capital receipts from such countries are permitted freely. In addition, special controls are maintained over borrowing abroad. The French Franc Area is exempted from such controls.

7. Nigeria

The parity rate of the national currency, the Naira, corresponds to 0.657893 = US$1.

Exchange restrictions are maintained on trade and invisible transactions. Imports which are neither prohibited nor subject to specific licences may be brought into the country under open general licence. Residents are entitled to a basic travel allowance of N 1,000.00 per person a year. Business travel allowances are limited to ₦ 80.00 a day up to 15 days a trip for a maximum of 60 days per annum per institution. Most locally produced goods may be exported freely under open general licence. Individual licences are required for certain specified items such as tobacco, tin, unrefined gold, etc., as well as products subject to control by Marketing Boards. Exports of petroleum and petroleum products are subject to special arrangements.

Capital transactions are subject to control and approval.

8. Sierra Leone

Exchange control is administered in the light of the prevailing reserves and balance of payments situation. Generally payments abroad for goods and services are allowed provided it can be shown from documentary evidence that such payments conform to current regulations.

Imports into Sierra Leone are either under specific import licence or open general licence. Imports under specific import licences are quantitatively restricted but the possession of such a licence carries with it the right to pay for the goods within the amount of the allocation during the current licence period. Although goods on the open general licence have not been quantitatively restricted by a system of allocation, foreign exchange constraints have imposed some limitation on the right of unlimited imports of such goods. Consequently, importers have been advised to seek foreign exchange cover through their bankers from the Bank of Sierra Leone before placing their orders. Priority is given to essential commodities and foreign exchange is liberally provided for this category of import items.

Payments abroad for services are freely allowed provided an application for such payments is sufficiently supported by documentary evidence.

Capital brought into Sierra Leone for investment purposes is repatriable together with interest on such loans. Transfer of profits and dividends are allowed. Where equity participation is concerned, final accounts must be produced to show that profit have been made to warrant the payments of profits and/or dividends and where repatriation of capital is required the accounts must clealry show that the capital is intact.

Problems of Exchange Controls

From the above survey we observe that exchange controls administered in the member countries have adverse effect on trade expansion in the subregion. Generally, they present rigidities in transactions and therefore make for excessively long and costly administrative procedure in monetary transfer operations. More specifically, however, following are some of the detailed effects of exchange controls on trade in the subregion.

Owing to high tariffs on traded goods in some countries substantial trade between such countries and other member border countries are not routed through official channels. As such unrecorded border trade is substantial though there are no available statistics.

Unrecorded trade has been identified to stem from also "black market" dealing in currencies along borders. Proceeds of export trade has been observed to be more attractive here than through the official channels. This is exemplified by taking the case of two exporters in Ghana, one using the official channel where an export incentive in the form of an export bonus of 10% exists for the face value of the exports made - and the other who carries the illicit trade at the borders obtaining proceeds through the black market system where a rate of ₵8.00 to the $US1.00 may exist. For export value ₵1 000.000 on the goods exported the former trader receives ₵1 100.00 whilst the latter trader pockets ₵8 000.00.

The different monetary systems have their attended problems. It is observed that the countries under the umbrella of BCEAO generally have no controls and restrictions as regards trade and payments among themselves. There is therefore large volume of trade among themselves (Annex). On the other hand the volume of trade among the other seven member countries is small due to rigidities arising out of the different payment systems prevailing in each of the other countries. This is also generally true for trade between BCEAO member countries and each of the other seven countries of the subregion.

Another factor is the low degree of convertibility of currencies of member countries. This manifests itself in the fact that national currencies, which are for internal circulation are tied to an intervention currency which is generally that of the former colonial power or that of the main trading partner. Thus the national currencies themselves are externally inconvertible and hence extremely fragile and ill-suited to the different payments systems.

For lack of credit and financial facilities to back the different exchange controls administered there is a clear strangle hold of western financial institutions on West African economies. This problem manifests itself in letters of credit being confirmed by correspondent banks in the former colonial countries and mail transfers and telegraphic transfers being routed through banks outside the sub-region. These generally cause delays in transactions handled and therefore trade expansion is adversely affected.

Liberali ing the Exchange Controls

With these as some of the major problems associated with exchange control administration any effort to ensure expansion of trade in the subregion requires concerted efforts to surmount or liberalize the controls. A positive step. in general, is in the direction of consultation among governments in the subregion on the subject. This will help dismantle some of or all of the problems asoociated with exchange controls enumerated above. Towards the realisation of this objective, the following proposals are worthwhile considering.

Firstly, the need for multilateral clearing of payments mechanism. This we are satisfied is being achieved with the coming into operation of the West African Clearing House. Having settled this, there is the need for larger credit tranches as well as longer settlement periods under the clearing system.

Secondly, there is the need for reciprocal balance of payment support in the operation of the West African Clearing House.

Thirdly, there is the need for the establishment of the West African Confirming House to take over the functions of colonial overseas banks in such vital transactions as the confirmation of letters of credit.

There is also the need to have correspondents established among banks in the continent to cater for transactions involving letters of credit, mail transfers, telegraphic transfers and the provision of trade services such as status enquiries in order to avoid delays associated with the present arrangements which are wholly dominated by overseas colonial banks.

Whilst some of the above suggestions for liberalizing exchange restrictions may require time to materialise, in the short run, however, we reckon the following measures could be taken without much strains on member countries exchange. resources.

Efforts be made for merchandized goods originating from the subregion to be exported under open general licence.

For travel within the subregion, it is suggested that member countries make available to travellers some basic travel allowance.

Remittances by nationals of the subregion of their earnings for work done in other member countries should be freely allowed by the exchange control authorities.

To encourage educational tours in the Sub-Region efforts should be made to provide exchange facilities for educational expenses for nationals who pursue courses in other member countries.

As a step towards encouraging direct investment in the subregion exchange facilities for capital, dividends and profits should be provided for nationals of the subregion who want to establish productive business in other member countries.

Conclusion

In conclusion we reckon, exchange controls, irrespective of their attended problems, are manifestation of a country's trading requirements to preserve its exchange resources for easing balance of payments problems and therefore ensuring harmonious attainment of its economic goals and objectives. But we in the West African subregion cannot attain these lofty objectives for the betterment of the entire region without consideration of an effort to expand our trading activities. This, however, can only be achieved if we make concerted efforts to dismantle the variety of controls prevailing in the member countries. In this direction, we believe, our only salvation lies in taking steps to implement all or most of the suggestions made above so that trading activities will be very brisk and expand for the benefit of the entire subregion.

for imports from countries with which bilateral trade agreements are maintained. Most exports are free of licence and require only a declaration. Proceeds in respect of exports must be surrendered and transactions related to these domiciled with an authorized bank.

Payments and transactions on invisibles are also similarly treated as above when France, Monaco and other operation account countries are involved whilst those to all other countries are subject to approval.

Capital movements within the French Franc Area are free of exchange control. Capital transfers to all other countries require exchange control approval but capital receipts from such countries are freely permitted. Special controls are maintained on transactions related to foreign borrowing both outward and inward, direct investment and over the issuing, advertising, or offering for sale of Foreign Securities except transactions within the French Franc Area.

2. Gambia

Daily administration of exchange control is carried on by the Central Bank. However, commercial banks which have been appointed as authorized dealers, may authorize sales of foreign currencies for imports covered by specific import licences and up to specific amounts, for travel expenses and sundry payments abroad. All other sales of foreign currencies are subject to the authorization of the Central Bank. For social, health on moral grounds the importation of certain specified goods are prohibited. Import from any country of rice and wheat flour is subject to specific licensing. Import of rice is in the hands of only the Gambia Produce Marketing Board. All other imports are freely permitted under open general licences if imported from all countries within the former Sterling Area and some thirty-four specified countries together with their overseas territories. Imports from all other countries are subject to specific licensing.

Payments for imports may be approved by an authorized dealer on production of evidence of importation for any commodity that is covered by a valid Specific import licence. For imports that do not require specific import licensing, payment authorization is given by the Central Bank on production of evidence of importation on shipment. Advance payment for all imports are approved by the Central Bank. Payments for invisibles in foreign currencies require permission from the Central Bank except travel and sundry expenses which authorized dealers have delegated powers to effect payments.

Export of Charcoal and firewood is subject to licensing. The export of all goods to some nine specified Eastern countries also requires a specific license. The export of all other goods to any other destination is freely permitted under an open general licence. Export of groundnut products, oil palm kernels, cotton and all derivatives of cotton is done solely by the Gambia Produce Marketing Board. Proceeds of exports must be received within six months from the date of export.

Receipt from invisibles in foreign currencies must be offered for sale to authori ed dealers. There is no restriction on the import of Gambia or other currency notes. Inward transfers of Capital are not controlled but outward transfers are subject to control. A non-resident requires clearance from the Central

ANNEX

DIRECTION OF INTRA SUBREGIONAL TRADE[a/] 1972

IN MILLION US DOLLARS

Country	BCEAO		Gambia		Ghana		Liberia		Mali		Nigeria		Sierra Leone		Total	
	Imps	Exps	Imps	Exps	Imps	Expts	Imps	Exps	Imps	Exps	Imps	Exps	Imps	Exps	Imps	Exps
(1)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(3)	(3)	(3)	(2)	(3)
BCEAO	36.866	42.748	-	0.751	2.443	2.103	0.125	0.022	2.757	10.781	21.892	17.180	0.004	0.002	64.087	73.587
Gambia	1.081	0.097	-	-	0.055	0.039	-	-	-	-	0.016	0.019	0.425	0.079	1.577	0.234
Ghana	3.150	2.890	0.030	0.090	-	-	0.120	0.290	2.460	0.060	10.390	1.490	0.030	0.080	16.180	4.900
Liberia	1.360	0.490	-	-	0.100	0.460	-	-	0.070	0.790	0.150	0.180	0.430	0.080	2.110	2.000
Mali	11.862	2.507	-	-	0.065	2.233	0.865	0.033	-	-	0.020	-	0.042	-	12.854	4.773
Nigeria	2.000	18.700	-	-	1.200	7.000	-	0.300	-	-	-	-	0.100	5.100	3.300	31.100
Sierra Leone	1.024	0.153	0.106	0.558	0.078	0.047	1.268	0.492	-	0.040	8.001	0.083	-	-	10.477	1.373
															110.585	117.967

Note: (i) Date in column (2) refer to imports from a member country of the into each of the countries in column (1) and data in column (3) refer to exports from each of the countries in column (1) to a member country of the subregion.

(ii) a/ West African Clearing House members excluding Guinea.

(iii) Source: Direction of Trade (IMF, IBRD).