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The Imperative for a West African Common Currency in the Light of the Euro Zone Experience

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Abstract:
The old practice of the individual survival of nations has long given way to the emergent concept of economic, monetary integration and cooperation among states with contiguous and regional compatibility as an option to meeting the collective developmental needs of their people. Practice has shown over time that when states take comparative advantage of each other's strength and weaknesses, it opens the space for trade and engenders the potentials for product specialization, development of the economies of scale and indeed reduces the cost of production, and consequently, enhances the purchasing power of the citizenry. In recent times, there have been significant increases in the efforts of developing countries especially in Sub-Saharan Africa to achieve regional economic integration. The launch of the African Union (AU), the New Partnership for Africa's Development (NEPAD), as well as the Economic Community of West African States (ECOWAS) have given new impetus to the global African and regional integration processes and have focused particular attention on the need to take decisive action to tackle the continent's numerous problems through the instrument of the economic integration strategy. This strategy was targeted at ultimately dovetailing into the adoption of a common currency for the sub-region through a two-pronged strategy of the preliminary introduction of the Eco, which would ultimately integrate with the CFA Franc to form the West African common currency. The takeoff of this dream has suffered numerous setbacks and postponements without firm commitments and prospects for its realization. This paper analyses the rationale and prospects for economic integration in West Africa as well as evaluate the challenges and debilitating factors militating against the realization of the common currency in the light of the Eurozone experience.

1. Introduction

Regional integration as a strategy for the collective economic survival of nations around the world has gained remarkable prominence in recent times. It has given nations the options of cooperation and competition. It has provided for participating states the options of promoting their best areas of specialization whilst at the same time ceding to other participating nations products considered to be within the purview of the strength of those other states. The most attractive factor of integration is chronicled on the general principle of the creation of a common market where goods, services and capital are guaranteed unhindered freedom of movement within the integrated area. This guarantee includes the right of residence and establishment.

In the sub Saharan, African regions, we have seen the revitalization or the expansion of existing regional economic arrangements and the formation of new groupings. The foregoing initiatives have interestingly coincided with the current developments in the Western and industrialized world who have since taken up the instrument of economic integration as a vehicle to political and socio-economic prosperity and consolidation. Regional economic integration is increasingly recognized as the viable space within which small and developing economies can better organize themselves to survive economically and politically in a highly competitive world.

The West African Sub-region currently operates two currency regimes, with the Francophone Countries of Benin, Burkina Faso, Cote D'lvoire, Guinea Bissau, Mali, Niger, Togo and Senegal already formed into the common currency of the CFA Franc under the control of the West African Economic and Monetary Union (WAEMU) Central Banks which is pegged to the Euro with a fixed exchange rate of 1 euro to 655.957 CFA Franc). [1] On the other hand, are the countries of Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone, which operate their individual national currencies. In the year 2000, these Anglophone countries, with the exception of Cape Verde and Guinea (which are Portuguese and French speaking respectively), in response to the CFA Franc, formed a second monetary zone (WAMZ) with a view to harmonizing their monetary and economic policies towards forming a

[1] SalehNsouli, M. Capacity Building in Africa: The Role of International Financial Institutions. Finance and Development. A quarterly Magazine of the IMF. December 2000, Vol. 37. No.4

common monetary union with a currency to be called the Eco.[2] It was hoped that it would then be easier for the two currencies of Eco and the CFA Franc to merge in the long run into a single West African ECOWAS currency. This second set of countries desire to converge under what is referred to as the second West Africa Monetary Zone (WAMZ) with the sole objective of establishing a common union to be characterized by a common Central Bank and a single currency to be called the Eco in replacement of the current six existing national currencies.

Furthermore, as a foundation to the creation of a new Central Bank for the WAMZ which would be charged with the duties of currency and fiscal measures among the six countries in the second monetary zone, the West African Monetary Institute (WAMI) was formed as a precursor to the Common West African Central Bank (WACB) which has all the transition and implementation mandate as outlined.

Due mainly to the inability of most member countries to meet with most of the convergence criteria, despite the earlier postponements, the second monetary zone which was re-scheduled to have taken off on the 1st day of December, 2009 had to be shifted to the 1st day of January 2015 despite the huge challenge of meeting the convergence criteria.[3]Member States in the West Africa Monetary Zone were certain they would by the 1st of January 2015 have a new currency. Sadly, this date has again gone by with even more debilitating convergence reports and the sheer inability of these nations to meet up as expected. The sub region still awaits the announcement of a possible new date for the takeoff of the Eco.

This means that when convergence is attained, the countries of Ghana, Gambia, Guinea, Liberia, Nigeria and Sierra Leone will have a common currency to enhance trade facilitation. The convergence criteria include attaining single digit inflation, meeting a reserve of the Central Bank on import of goods and services for a duration not less than three months as well as a fiscal deficit of not more than three per cent (3%) of Gross Domestic Product(GDP), excluding grants.

The primary objective of this paper is to highlight the challenges on the way to the introduction of the Eco as a precursor to the West African Common Currency especially as it concerns the herculean task of meeting the convergence criteria by the ECOWAS countries in the light of the Eurozone experience.

1.1. Objectives of ECOWAS

Article 3[4] of the ECOWAS treaty provides the parameters of the stage-by-stage evolution of the Community into a monetary Union through the observance and performance of a set of standards by national governments across the sub-region. The section had elaborately provided for the general harmonization of national policies of the integrating states in a wide spectrum of development areas as initial preconditions for integration; these areas span the regime of food, oil and Gas, energy, finance, trade, environment etc.[5]

The foregoing provisions amongst others clearly set out the roadmap that the ECOWAS countries had set for the realization of a stronger community, good enough to guarantee the benefits of the economies of scale and properly positioned to meet with the conditions of a global player. A careful perusal appears to show the provisions of the treaty relating to the creation of a monetary Union through the instrumentality of a common currency in West Africa as a direct replication of the content and strategy of the European Union evolutionary process.[6]

A combination of the directive as contained in the aims and objectives of the integration process and the completion strategy for the economic and monetary union reveals that as it is under the European Union, it is also persuasive, electable, optional and therefore not compelling for Member Countries to adopt the convergence criteria within a given timeline. It is considered that this status quo can be remedied through the insertion of compelling indicators in the treaty making it clearly and positively mandatory for the integrating countries to dissolve their national currencies concurrently into the single unit within a given timeline and framework.

1.2. Status of Convergence Criteria towards the Eco

The lofty dream of realizing the Eco as a precursor to, and the West African Common currency has overtime, been faced with daunting challenges particularly as it bothers on meeting the laid down convergence criteria due largely to the absence of a good track record of architectural and microeconomic development apparatus. A good track record of macroeconomic performance and sustenance of compliance index with the convergence criteria are a precondition for the launching of the Eco.

Macroeconomic performances in the WAMZ countries have been generally slow. Although there have been little improvements in some indicators, it has been observed that inflation has accelerated rapidly to a double digit in all the WAMZ countries owing largely to the adjustments in the prices of petroleum products, high monetary growth rates occasioned by reliance on central bank resources for financing of fiscal deficits, and certain supply constraints. It has also been observed that there may be some marginal signs of improvement in the fiscal stance in most countries as the overall fiscal deficit, excluding grants have narrowed[7]. On the whole,

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[2]Nnanna Joseph, O. "Monetary Integration in ECOWAS: The case of the West African Monetary Zone (WAMZ)"; in *ECOWAS Milestones in Regional Integration*. (Lagos: Nigerian Institute of International Affairs 2000), print. Ed by Joy Ugwu and Wasiru Ali, O. P. 179. Print

[3] West African Monetary Zone. www.wami.imao.org 23/08/2009.

[4] Ibid Chapter II

[5]Ibid.

[6] Ibid

[7]Abudu, M., "Challenges of the Introduction of the Eco to WAMZ Business and Consumers: A Prognosis", WAMI, West African Journal of Monetary and Economic Integration, Vol. 3, No. 2, 2003, Accra.

however, the WAMZ countries still remain fiscally fragile. The balance of payments index has also recorded slight improvements, with narrowing of overall deficits and consequent additions to gross external reserves. Real GDP recorded better growth rates in most countries than in the previous year.

Apart from outcome of the primary criteria, which is expected to be high, performance on the secondary convergence criteria also has to assume an upward trend. The respective member countries must be able to meet the 20.03 percent WAMZ target on tax revenue as a percentage of the GDP benchmark. The performance on the wage bill criterion also needs to show some level of improvement. This implies keeping wages and salaries below 35 percent of tax revenue[8]. The criterion on public investments financed from tax revenue must also be met at the WAMZ target of 20 percent. Moreover, insufficient data on the stock of domestic arrears in the countries makes it difficult to assess performance with respect to this criterion. There is also the need of pursuing programs to substantially reduce domestic arrears in the short- to medium-term[9].

Nominal exchange rates should be relatively stable. Until fiscal dominance is decisively tackled by a zone-wide policy of zero financing of fiscal deficit by the central banks, it may be difficult for these countries to make significant progress on the convergence scale. With sustained effort at fiscal consolidation and proactive monetary policy, countries like Nigeria and Ghana are likely to make further progress on the convergence scale. However, with the poor macroeconomic performance and convergence record so far, the road to the Eco may be bumpy, but the challenges can be effectively addressed with greater determination and political will[10].

At a recent meeting of the Presidential Task Force on the ECOWAS Monetary Cooperation Program (EMCP) which held in Niamey, Niger Republic, on the 4-6 February, 2015, and in furtherance of the accelerated drive for the attainment of the West African Common Currency by 2020, there was before the Task Force a comprehensive proposal for the creation of the ECOWAS Monetary Institute (EMI) which is to come on in 2018 as a precursor to the establishment of the West African Central Bank. It was proposed that the EMI was to develop the operational framework for the introduction of the ECOWAS single currency. The EMI was also expected to lay the technical and organizational foundations needed to enable the regional central bank fulfill its primary task of price stability.[11]

The proposal earmarked for the EMI the following mandate towards the attainment of a single West African Currency.

1. Undertake in collaboration with other regional institutions, surveillance of macroeconomic and financial policies of member states.
2. Strengthen the coordination of monetary policies of member states and the cooperation between central banks.
3. Undertake research in monetary and macroeconomic policy issues and
4. Prepare for the establishment of the common central bank, the conduct of the single monetary policy and the introduction of a single currency. [12]

It is interesting to note that at the said meeting, there was a presentation made by WAMZ to the Convergence Council regarding its concerns on the revised macroeconomic convergence criteria. This essentially concerned the downgrading of the criterion on central bank financing of fiscal deficit from the primary to the secondary levels. It was resolved at the meeting that the central bank financing criterion be reversed and reclassified as a primary criterion because of its relevance to monetary and price stability.[13]

Evaluating from the current global economic recess and its impact on developing nations including those of the West African sub region, it would appear that the potential for early recovery and attainment of the macro economic convergence criteria remains bleak. No doubt the countries within this bracket have been grappling with the burden of development and survival. Most, if not all of them are over burdened by debt hangovers and are expectedly unable to clearly meet these expectations.

The question that readily begs for answers is the future of the convergence criteria vis a vis the realization of the dream for a West African common currency. A cursory shows that the ECOWAS experience is clearly modeled after the European Union without taking into consideration the distinctive mission of the two experiments for integration. Whereas the economically vibrant and stable countries of the EU embraced the Eurozone option as a strategy for economic consolidation and prosperity, the West African experiment was wired around the stimulation, regeneration and development of an economic agenda that would pull the people of West Africa out of the woods. To therefore structure the West African experiment along that of the EU was some slip ab initio. In simple economics, it would be assumed that you do not need the same parameters to deal with the economic challenges of these respective players. It needs no telling that for the economic conditions of the West African States to start showing any signs of growth, it must begin from the rudiments, the point where the countries of the Euro were so many years back.

Greece has been battling with a major sovereign debt hangover, which has generated intense debate lately among the nations of the EU leading to a narrow extension given to Greece to make good its debt obligations. Looking at Greece as it stands today, arguably the most indebted in the EU, and comparing it with the most prosperous nation in West Africa, debatably Nigeria would potently

[8] WAMI, 2002; "Macroeconomic Developments and Convergence Report for 2002". WAMI, 2003; "Macroeconomic Developments and Convergence Report for 2003".
[9] Ibid
[10] WAMI, 2004; "The Transition into the Monetary Union of the WAMZ, 2004-2005: Critical Steps, Strategies and Responsibilities.
[11] Summary of Conclusions and Recommendations of the Third Meeting of Presidential Task Force on the ECOWAS Monetary Cooperation Program, Niamey, 6th February, 2015.
[12] Ibid
[13] ibid

reveal an alarming gap both in the infrastructural, architectural, and developmental attainments. How then does one favorably expect to therefore use the same measurement and convergence conditions for the two experiments when 'the worst in one is far better than the best in the other'? It is humbly submitted that the countries of West African need to urgently review their terms of engagement to reflect the reality of their circumstances and drive their own strategies to be founded upon their struggle to thrive. Ultimately, these convergence criteria would have to be narrowed, streamlined, or repackaged realistically and on a sustainable platform if any significant progress must be made with the ECOWAS project.

It is further curious to observe that the WAEMU countries have been operating the CFA Franc single currency for many years unabated and uninterrupted without major fault lines. These countries debatably have weaker economies and lack the architecture and infrastructure that some of the nations in the Anglophone countries in the region have. Observers have held that it was because the CFA Franc was pegged to the French national currency and now the euro, under the watch of the French Central Bank. Much as the foregoing observation maybe credible, it bares the mind to note that if the principles of monetary integration are predicated upon the advantages of making trading and borrowing easier and cheaper for member countries and to develop their economies, same cannot be said to have been achieved under the CFA Franc integration.

1.3. The Eurozone Experience

The Eurozone is arguably the most advanced and tested model of monetary integration around the world, along which most other integration experiments are fashioned. Copious literatures abound on the evolution and successes that were recorded by the European Union. However, it is pertinent to observe that currently, the Eurozone is neck deep trapped in the sovereign debt crisis, which has exposed the inherent weaknesses in the Eurozone arrangement. This development has called for serious introspection from the EU. Franco Prassello posited that having evaluated the souring situation in the Eurozone, member countries are left with only three choices, which include the continuation of the ongoing impasse, the failure of monetary integration in its existing form through the withdrawal of some countries from the zone, or the breakup of the entire experiment. Finally, he opined the potential emergence of a euro area in the direction of a banking, fiscal and budgetary union.[14]

Drawing from contemporary happenings in the Eurozone, there is the need for caution and rethink among the monetary integration models fashioned along the Eurozone experiment. This is even more compelling for the ECOWAS countries as the lessons from the sovereign debt crisis shows the imperfections in the model even for 'its originator, much more for the imitator'. In evaluating the Greece situation, some scholars have drawn pungent lessons for the smaller countries that are planning to join the Eurozone or any other monetary union. The scholars held that it is instructive that first, countries that have inefficient public systems must reengineer and restructure it before venturing into any monetary union. Secondly, they submit that the countries must engender a business-friendly environment with a simple and stable tax system, effective and efficient justice system, and a high quality educational system. They added that the living standards of the people must be determined by productivity and competitiveness. They generally concluded that good governance built around probity and the judicious use of resources inter alia was a sine qua non.[15]

The parameters set out in the foregoing treatise should have been the starting point for the ECOWAS experiment. A region that is struggling with governance gaps, fiscal discipline, poor resource management and generation, wars and endemic corruption cannot be expected to rise above itself to play accurately in a monetary union at once. The Eurozone lessons have shown clearly that even 'the mighty have fallen', yet the minnows are still treading the same lines without 'looking before they leap'.

1.4. The Challenges of Monetary Integration in West Africa.

Generally, the West African sub-region has been unable to develop its capacity in the area of the generation, supply and pricing of energy, health care delivery is at an abysmal level, education is on the ebb, transportation is so undeveloped, agriculture is un mechanized, subsistent and replete with mundane practices, technology is still nascent, roads and telecommunications amongst other are so highly underdeveloped. The unbridled regional violence plaguing the sub region, the unabated unconstitutional change of governments, the absence of the rule of law and democracy, incessant and rampant armed conflicts that have pervaded the sub-region have left so much to be desired in the attainment of the aspiration of regional economic and monetary integration.

The WAMZ monetary union was originally scheduled to take off in January 2003. Pursuant to the mid-term 2002 convergence assessment however, it was concluded that although some achievements were recorded, these were not adequate enough to support the takeoff of the monetary union in the earmarked year. While the achievements in terms of architectural design were significant, the poor performance in macroeconomic and policy convergence would constrain the operations of the envisaged monetary union.

The major challenges that confront the program include the inadequate commitment of the member countries, especially in supporting their expressed obligations with concrete actions. Besides, some member countries continued to experience civil conflicts, which tended to relegate serious economic management to the background. Further challenges to the early realization of the common currency include the lack of socio-economic infrastructure, weak economic and democratic institutions, incessant interference and interest of former colonial metro poles, the unexpressed fear of domination of the smaller countries by the bigger ones in the region. Other challenges include the attitudinal, ideological and psychological makeup of the leaders of the Member States of ECOWAS

[14] Franco Praussello: The Eurozone experience: Monetary integration in the absence of a Eurozone government. 1st Ed, 2012

[15] Elizabeth Oltheten et al: Greece in the Eurozone: Lessons from a decade of experience. The Quarterly review of Economics and Finance. November 2013, Vol.53 (4).

towards national sovereignty, the impact of the debt crisis and the externally imposed Structural Adjustment Programs among a myriad of other problems.

1.5. Conclusion

The imperative for a common currency in West Africa cannot be overemphasized, given to the many advantages that abound in its realization. The peoples of West Africa no doubt have shared experiences, borders and aspirations for the improvements of the livelihood their citizenry. They aspire to remedy these problems through the strategy of economic and monetary integration. However, it is submitted that after so many years of trial, and in consideration of the many challenges confronting the project, it would appear that the dream of monetary integration is yet to prove itself as a useful tool for meeting these needs.

Having examined critically the current experience in the Eurozone, it is instructive that the ECOWAS experiment must reconsider its approach, tread with caution and allow for a gradual evolution having regards to the peculiar circumstance of the sub region. It is further submitted that the promoters of the monetary integration experiment should consider the possibility of running a dual currency integration model with the WAMZ countries formed into one group and the CFA Franc countries formed into another.

It is expected that this model would preserve the CFA Franc status quo whilst averting the apprehension in the French and Eurozone jurisdiction to which it is currently tied. That way the benefits of economic integration would be allowed to flow whilst allowing a later but indefinite period for the possible convergence of the two currencies where the conditions are rife and right

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