

# **THE ECO AS A CATALYST FOR ECONOMIC INTEGRATION IN WEST AFRICA**

The crest of the University of Ghana is a shield-shaped emblem. The top section is a blue rectangle containing three golden, flame-like symbols. Below this is a horizontal golden band. The main body of the shield is blue and features a large, intricate golden scrollwork design. At the bottom of the shield is a golden banner with the Latin motto 'INTEGRI PROCEDAMUS' written in blue capital letters.

**BY  
CYNTHIA MAWUENA KUMASSAH  
(10402981)**

**THIS DISSERTATION IS SUBMITTED TO THE UNIVERSITY  
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### DECLARATION

I, Cynthia Mawuena Kumassah, a Master of International Affairs student of the University of Ghana, Legon Centre for International Affairs and Diplomacy (LECIAD), do hereby declare that this dissertation is the product of my original research under the supervision of Dr Juliana Appiah. This work has not been submitted wholly or partially for any award or degree in this or any other University by another. All works other than mine, used in the completion of this dissertation, have been duly referenced and acknowledged.



.....  
CYNTHIA MAWUENA KUMASSAH  
(STUDENT)



.....  
DR. JULIANA APPIAH  
(SUPERVISOR)

9/10/2020  
.....  
DATE

9/10/2020  
.....  
DATE

## **DEDICATION**

*This work is dedicated to my parents and siblings.*

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First and foremost, I wish to express my most profound gratitude to Almighty God, the giver of life. I would also like to thank LECIAD, University of Ghana, for the un-imaginable opportunity to further my studies here. I am forever grateful to all Faculty members whose actions and inactions in diverse ways have helped shape me during my period of study.

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*To all, I say, thank you and God richly bless you.*

## ACRONYMS AND ABBREVIATIONS

BCEAO	-	Banque Centrale des États de l'Afrique de l'Ouest (French), Central Bank of West African States ( English)
BPM	-	Balance of Payments Manual
CET	-	Common External Tariff
COICOP	-	Classification of Individual Consumption by Purpose
ECOWAS	-	Economic Community of West African States
EMCP	-	Economic Monetary Cooperation Programme
EMI	-	ECOWAS Monetary Institute
ESCP	-	ECOWAS Single Currency Programme
ETLS	-	ECOWAS Trade Liberalization Scheme
EU	-	European Union
GDP	-	Gross Domestic Product
IMFGFS	-	International Monetary Fund Government Finance Statistics
LECIAD	-	Legon Centre for International Affairs and Diplomacy
MFA	-	Ministry of Foreign Affairs and Regional Integration
OCA	-	Optimum Currency Area
OCR	-	Optimum Currency Region
SNA	-	System of National Accounts
UNECA	-	United Nations Economic Commission for Africa
USD	-	United States Dollar
WACH	-	West African Clearing House
WACMIP	-	West Africa Capital Market Integration Programme

WAMA	-	West African Monetary Agency
WAMI	-	West African Monetary Institute
WAMZ	-	West African Monetary Zone
WAPP	-	West African Power Pool

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## **ABSTRACT**

The Economic Community of West African States (ECOWAS) was established on 28<sup>th</sup> May, 1975 to unify the West African sub-region into one economic bloc that would eventually culminate into a currency union with time. In its bid to create this economic bloc, ECOWAS realized that the inexistence of a common currency stalled trade and free movement of persons. As a result, there has been an invigorated effort in the new millennium towards the achievement of a common currency; the ECO. This research is qualitative in nature and through thematic analysis, it was realized that in the first decade of this millennium, the ECO could not materialize due to the challenge in macroeconomic convergence, lack of political will, low intra trade levels amongst others. This led to a revision in approach in 2009. The findings also revealed that the new roadmap spurred on progress in areas such as the harmonization of statistics and data, economic policy coordination, payment systems and financial integration. Despite the revised roadmap, the pre-existing problems facing the ECO still subsists. In addition, the study highlighted colonial loyalty and monetary cooperation amongst Francophone Africa and France as threats to the realization of the ECO. The study concluded that cognizant of the above, ECOWAS would not meet its 2020 deadline and recommended that ECOWAS abolishes the fast track approaches to integration, foster political will, invest in value-added production to increase trade levels and concentrate on infrastructural development in the areas of transport and communication.

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background to the Study

With the advent of globalization and regional integration around the world, it has become increasingly necessary for regions to integrate and join the development train and Africa no exception. May 28, 1975, marked a new dawn in West Africa as fifteen States signed the Treaty of Lagos establishing the Economic Community of West African States (ECOWAS); the largest single economic union in all of Africa. (Zagaris 1978; Michel, 2004; Hartman 2017). ECOWAS aims to foster economic cooperation and development, especially in the areas of industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial affairs, and in social and cultural aspects as well. Through such economic cooperation and development, ECOWAS seeks to improve the standard of living among its members, increase their economic stability and foster closer relations within the community. (ibid).

ECOWAS has achieved some level of economic integration by attaining a free trade area; eliminating trade barriers between member countries and adopting a common external trade policy enabling the free movement of goods, services and persons (Essien 2014). Currently, in Ghana, the ECOWAS identity cards are being instituted to boost this protocol. Despite these, many countries in the sub-region face problems of exchange rates when engaging in trade and movement of persons and capital (Saka, Onafowokan & Adebayo, 2015). This, serving as a backdrop, has bolstered the Community's efforts in the last two decades, to establish a common currency (Eco) for its members. This initiative, unfortunately, failed to be implemented three times (2003, 2005

and 2009) since its inception in 2000 till date due to the failure to meet the convergence criteria necessary for its implementation. Its next envisaged date of implementation is 2020.

Several scholars have expressed opinions on a common currency in West Africa, terming it a mirage as it is not what West Africa needs at present. They argue that there are other key rudiments that need to be taken into consideration before a common currency can be instituted. (Chuku, 2012; Masson and Milkiewicz, 2003)

### **1.1 Problem Statement**

West Africa's quest for a single currency has been a topic with many divergent views and none converging on its implementation anytime soon. This study sought to find out the obstacles hindering the implementation of the Eco and the implications on economic integration in West Africa, should the Eco be implemented. It also sought to find out progress ECOWAS has made towards the achievement of a common currency and if ECOWAS would be able to meet the 2020 deadline while adding to the ongoing discourse and growing literature on integration in West Africa and Africa as a whole.

### **1.2 Research Questions**

This research seeks to answer the following questions:

- How would the existence of the Eco currency intensify economic integration in the sub-region?
- What progress has ECOWAS made in trying to achieve the Eco currency?
- Why is the implementation of the Eco fraught with many challenges?

### **1.3 Research Objectives**

The objectives of this study are:

- To find out how the Eco would intensify economic integration in West Africa.
- To find out progress ECOWAS has made in the achievement of a common currency.
- To identify and understand the hindrances facing the implementation of the Eco.

### **1.4 Scope**

Economic integration in West Africa started in 1975 with the establishment of the ECOWAS as the supranational body to see to the economic affairs of the sub-region. Since its inception, the sub-region has undertaken varied measures to ensure increased economic integration amongst its member states. One challenge impeding the efforts of ECOWAS to achieving deeper economic integration is differences in the value of currencies in the sub-region. In 2000, the West African Monetary Zone was created to merge the currencies of the non-CFA countries of the region to create a common currency, with the idea of an eventual merger with the CFA to form an ECOWAS currency. Since 2000, the launch dates of the proposed currency, the eco, has been postponed thrice (January 2003, July 2005, December 2009). Currently, the currency is envisaged to be launched in the year 2020.

Thus, this study's prime focus is economic integration in the sub-region since the first attempt of the implementation of the Eco in 2003 till date with emphasis on the time frame between the last failed launch date and the next launch date (2009 – 2020) and how the introduction of a common currency would change the face of economic integration in West Africa.

## **1.5 Rationale**

There have been arguments that a common currency is not what West Africa needs at present (Tsangarides and Qureshi, 2008; Chuku, 2012). It is further argued that the region has very low intra trade amongst member countries and that should be the point of concentration but ECOWAS seems unflinching in their efforts to implement the Eco as soon as possible. This study, therefore, seeks to understand why ECOWAS intends to implement the currency in the shortest possible time, examine its efforts to implement the common currency in the sub-region and what its implementation means for economic integration in West Africa.

## **1.6 Theoretical Framework**

Monetary integration in the world has been dominated largely by the theory of optimal currency area and this is the theory which undergirds this study. OCA theory has been used to assess a region's desirability for a currency union and whether or not the region has the pre-conditions necessary to support a currency union. In economics, an optimum currency area (OCA) also known as optimum currency region (OCR), is a geopolitical area where having a common currency maximizes economic efficiency (Deep, 2017).

The theory encapsulates two aspects of integration; the economic and political. According to the theory of Optimum Currency Areas, the following are the criteria or preconditions a region must satisfy to share a common currency. There should be the mobility of factors of production, especially labour, a high level of economic openness, production and consumption diversification, financial market integration, fiscal integration and similarity of exchange rates (Bawa, 2018).

The theory is traced to the seminal paper of Mundell, 1961. In his work, he highlighted the mobility of factors of production including labour as the first criterion. This is a key component in building a lasting currency union. When factors of production especially labour are able to move around a region, it allows the region's economy to deal with asymmetric shocks through migration, therefore reducing the need for adjustment through exchange rate changes. It can, therefore, be argued that this proposal is based on an alternative adjustment mechanism" (Saka, Onafowokan & Adebayo, 2015). Also, this criteria is necessary to eliminate disequilibrium. Bawa (2018) maintains that in a region of heightened factor mobility, should a country be hit by a negative shock, factors of production can move to a country of a positive shock hence compensating for exchange rate changes. For instance, If a part of the region is hit by unemployment, labour from this part of the region should be able to move to other areas where there is work. Moreover, Mundell includes that if there is high labour mobility caused by high labour market integration, the region could have fixed exchange rates within and flexible exchange rates with the rest of the world ( Broz, 2005).

McKinnon (1963) further developed the theory by the inclusion of the degree of economic openness as the second criterion. Countries in the region which interact more through buying and selling and have fewer barriers to trade amongst themselves are more eligible to benefit from a currency region. Heightened intra trade results in relatively lower transaction costs for members of the currency region. The region must also possess together with capital mobility, the flexibility of pricing and salaries to eliminate regional trade imbalances.

Kenen (1969) proposed a third criterion; the degree of diversification of production and consumption. Economies with a high level of diversification have well-diversified export sectors. This moderates the possible impact of a shock in any specific sector. It also insulates the area and gives it a level of stability as shocks are easier to deal with as a region than as a country. As such, Kenen (1969) hypothesizes that a more diverse economy is less likely to endure a country-specific shock and therefore the exchange rate of the country is less helpful in macroeconomic adjustment.

Other criteria necessary for a currency region are financial market integration, the similarity of inflation rates, and supply and demand shocks in the currency region. Financial market integration serves as a cushion for short-term adverse disturbances due to capital flows. This reduces variances in long term interest rates thereby facilitating the financing of external imbalances leading to efficiency in the allocation of resources (Bawa, 2018). Also, the shocks experienced in the region must be on par. This is another function of product diversification. The similarity of inflation rates is another prerequisite for the formation of a currency union. Differences in economic and monetary policies, social preferences, labour market institutions and structural developments can cause external imbalances hence the need for similar inflation rates.

The last criterion is fiscal integration. The region must have a centralized control system or budget to redistribute wealth to areas of the region that are suffering as a result of labour and capital mobility. According to economists, this criterion is very difficult to achieve for two reasons; (i) it would have to be a politically motivated decision and (ii) the wealthy areas of the region may not be willing to share their surpluses with areas that lack. A currency is a representation of the sovereignty of a country as such for there to be a region larger than the enclave of national borders,

political leaders would have to willingly cede a level of sovereignty for the establishment of a currency region. Mundell, the propounder of the theory, explained that States make up the region and their willingness to cede some level of sovereignty to the common currency agenda is a prerequisite as States cannot be forced to share a common currency.

Despite the validity of this theory, Paul Krugman questions whether the theory of Optimum Currency Area is justified as a measurement of the readiness or not of a region to form a monetary union. This he does by citing the European Union (EU) as a case study. The theory was used to analyse the EU before its implementation of the Euro and it was found that the EU was not an Optimum Currency Area. According to Krugman, Europe did not meet two of the criteria (labour /factor mobility and fiscal integration) but they formed a monetary union all the same.

This theory is of utmost relevance to this study as it seeks to use the benchmarks provided by the theory as a measurement of the preparedness of the ECOWAS region to form a currency union. Also, the EU faced the problems of the Greek financial crisis and currently, Brexit as a result of not meeting the aforementioned criteria. This makes it crucial as a measurement for ECOWAS; a regional bloc of developing countries. As it is a merger of two aspects of integration: the economic and political, it would be an adequate unit of measurement for integration in West Africa and the region's preparedness to form a currency union. Lastly, it would prove whether or not ECOWAS can meet its 2020 deadline for monetary integration.

## 1.7 Literature Review

ECOWAS in the last decade has made some level of progress towards the attainment of a common currency. However, much literature does not cover the progress in the last decade, which ECOWAS has made towards the attainment of a common currency in 2020. This study, therefore, seeks to fill this gap in the literature, while assessing if this progress would cause a considerable change in economic integration in West Africa, as well as judge if the progress poises the sub-region for a common currency in 2020.

Post-World War II, countries across the globe have resorted to integration as a solution to development. This interaction has been dominated by the Balassa (1961) theory of economic integration which highlights five, sometimes 6 stages of integration. Logically, if Member States would want to follow the stages accordingly, Kyambalesa iterates that they would begin with a preferential trade agreement where there would be a loose economic arrangement between participating countries which would grow to become a free trade area reducing all trading barriers between Members yet still allowing Members to have their varying external trade policies with non-members. Consequently, this level of integration is followed by the creation of a customs union where the free trade area is solidified by the adoption of a common external trade policy against non-members to heighten intra trade in the region. The next expected thing is a common market where, in addition to a customs union, all barriers to factor movements are removed (2006). Foroutan notes that with the first three levels of integration; free trade area, customs union and common market, the regional market is unified as a result of the removal of the barriers to the free movement of goods, services and factors of production (1992).

It is for this reason that Gerber, as referenced by Kyambalesa (2006) describes these first three stages as shallow integration and the last three; economic, monetary and political union as “deep integration”. National borders impede economic integration activities (Rose & Engel, 2000). Deep integration he furthers, goes “beyond border-related issues” to encapsulate harmonization of economic, financial, legal and political aspects of countries. African countries have been in pursuance of integration post-independence. As illustrated by Foroutan (1992), South Saharan African (SSA) countries in 1989 had a combined GNP equal to that of Belgium. SSA countries also formed part of the world’s poorest countries with a per capita income of \$340 and low physical and human capital. It is therefore justified by common sense that countries exhibiting such characteristics should integrate their markets to strengthen the region.

The ideal progression of the linear module of integration requires that the first stage leads to the next and the next in a linear module. That way, monetary integration would be sought by regions that have attained the level of economic union. However, this hypothesis of real integration to monetary integration has been questioned by Frankel & Rose (1996) who propose a new hypothesis that monetary integration can lead to deeper economic integration by lowering transaction costs, product diversification and a higher degree of price transparency. Frankel and Rose (1996) continue that elimination of transaction costs and exchange rate uncertainty stimulates trade with other members in a currency union. Integration and correlation would then increase simultaneously.

On one hand, Rose (2000) posits that countries with a common currency experience trade levels of 235% more than countries without a common currency. Fratianni (2006) records that monetary

and regional integration have a parallel impact on trade. Countries that belong to the same RTA have their trade levels as high as 150% as compared to countries who do not belong to any such agreements. Fratianni's findings illustrate that countries with a common currency trade 161% more than unintegrated countries. This effect although higher than 100% is lower than Rose's findings but proves that countries sharing a common currency experience trade levels higher than 100%. A common currency for a region also shows a level of serious commitment that would promote integration in the areas of finance and economics, boost reciprocal trade as well as synchronize business cycles amongst Members (McCallum, 1995).

Alesina & Barro (2000) illustrate that in 1947, 76 countries existed in the world. With time the number has grown to 193. An optimum currency area is an area where having a common currency increases economic efficiency. From this, one can then conclude that as all countries have currencies then all countries are optimum currency areas. This, however, is falsified by Frankel & Rose (1996) who capitalize on the size of the country. They argue that small countries are better off sharing a common currency than having their own independent currencies. Alesina, Barro & Tenreyro agree that to conclude a country as an OCA is to do so from a myopic standpoint where the currency is a representation of national identity and pride (2002). Countries save themselves from being small economies by subscribing to a public good such as a common currency. Small countries, therefore, *ceteris paribus*, should be ready to give up individual currencies for a regional one (Alesina et al., 2002). Also, by holding on to national currencies, policymakers in individual countries by the use of their borders, have isolated their national currencies from the external world (Fratianni, 2006). This keeps their economies closed to the world. Mongelli (2008) however argues

that monetary integration is a catalyst for openness. Today in the post-industrialization era, the services sector is naturally diversified creating automatic openness and a shield to shocks.

On the other hand, Frankel and Rose (1996) reason that a common currency is more suitable for regions that trade a lot with each other, have highly correlated business cycles, possess a high degree of labour mobility and have in existence a fiscal system for the transferal of funds to parts of the region that suffer adverse shocks. They add that regions qualify as an OCA when they are specialized.

Equally, Saka et al (2015) realized that it was difficult for West Africa to increase intra trade in the sub-region as the currencies were multiple; calling for exchange rates and hindering trade. This pushed forth the need for West Africa to pursue a common currency agenda (2015). Frankel & Rose (1996) propound the possibility of fulfilling the criteria ex-post than ex-ante. Krugman (1993) and Kenen (1996) are critical of the fact that the closer countries trade, the higher the possibility of specialization in goods in which the countries have a comparative advantage. This can also be possible with the reverse hypothesis of monetary integration culminating in deeper integration. A country relinquishing its currency for another gains credibility resulting in a reduction of unwanted inflation. The cost of this is the loss of the ability to stabilize domestic shocks.

These notwithstanding, authors such as Michel (2004) and Cristo Monagas et al (2015) have maintained that West Africa should concentrate on the problems facing regional integration in the sub-region as a priority and push the monetary agenda to a later date. Hakimian even suggests that

attempts to liberalize national political relationships are likely to increase trade and the flow of factors between countries. Mundell highlights that regions need currencies but would a common currency solve West Africa's problems?

## **1.8 Sources of Data**

This research made use of primary and secondary data sources. Primary data collection was mainly from semi-structured interviews with the following persons: key officials from the Africa Bureau of the Ministry of Foreign Affairs and Regional Integration, Ghana, a lecturer from the Department of Economics, University of Ghana, a lecturer from the Legon Centre for International Affairs and Diplomacy (LECIAD), key officials from International Regional and Policy Planning Unit, Economic Strategy and Research Division of the Ministry of Finance, Ghana and an official from the Research Department of the Bank of Ghana.

Secondary data was sourced from journal articles, books, United Nations Economic Commission for Africa assessment of ECOWAS (2015), ECOWAS and WAMI websites, ECOWAS Treaty, ECOWAS, WAMZ, WAMA and WAMI reports, dissertations, thesis, and the internet.

## **1.9 Research Methodology**

The study employed the use of a qualitative approach. Creswell (2013) highlights that a qualitative method of enquiry allows the researcher to create knowledge claims based primarily on the various meanings of individual experiences that are socially and historically constructed, with the aim of developing a theory or pattern or advocacy/participatory approach perspective or the two. This implies that qualitative approaches are interpretative and constructive helping the researcher to

probe into issues, understand opinions and essential motivations and patterns of thoughts of people in a social setting. This explains my sampling choice as the participants selected for interviews were in the capacity to provide the needed information on the subject matter.

### **1.9.1 Sampling Method**

Cognizant of the nature of the problem under study, the researcher employed the use of purposive sampling method. This sampling method involves a deliberate selection of informant based on the knowledge they possess on a particular subject matter. Palinkas et al, (2013) also define it as a sampling method that allows the researcher to choose a particular target population they believe would be appropriate for the study. The target population for this study was therefore selected in tandem with the objectives of the study and the information they would contribute. However, during the study, snowballing sampling technique was added to access informants from specific organisations as some interviewees were based on recommendations.

### **1.9.2 Target Population/Sample size**

The study targeted respondents from the Ministry of Foreign Affairs and Regional Integration, Ministry of Finance, the Department of Economics, University of Ghana, the Legon Centre for International Affairs and Diplomacy (LECIAD) and from the Bank of Ghana.

These respondents were a total of seven people as follows:

- i. Mr Ernest Obeng Darko - Head, International Economic Policy Unit (IEPU), Economic Research and Forecasting Division (ERFD), Ministry of Finance, Ghana
- ii. Mr Raymond Nazar - Deputy Head, International Economic Policy Unit (IEPU), Economic Research and Forecasting Division (ERFD), Ministry of Finance, Ghana

- iii. Mr Philbert Johnson - Director, Africa Bureau, Ministry of Foreign Affairs and Regional Integration, Ghana
- iv. Ms.Nana Ekua Akuffo-Sagoe - Foreign Service Officer, (Ministry of Foreign Affairs and Regional Integration)
- v. Dr Emmanuel Cudjoe - Lecturer, Department of Economics, University of Ghana
- vi. Dr Boni Yao Gebe - Lecturer, Legon Centre for International Affairs and Diplomacy
- vii. Bank of Ghana Official

### **1.9.3 Ethical Considerations**

Before conducting the interviews, ethical considerations were taken into account by first seeking the consent of interviewees for anonymity and confidentiality sake. Throughout the study, respondents who preferred to remain anonymous were captured as “officials”.

### **1.9.4 Data Collection and Analysis**

Personal interviews (which were recorded) were used to collect data from the respondents with the aid of a semi-structured interview guide. After the interviews, primary data was sorted from the recordings of interviews and transcribed. Using thematic analysis, primary and secondary data were coded into themes, highlighting the relationships existing between the themes to arrive at relevant conclusions.

### **1.10 Arrangement Of Chapters**

- ❖ CHAPTER 1: Introduction
- ❖ CHAPTER 2: Overview of Economic Integration and the Eco in West Africa

- ❖ CHAPTER 3: Prospects of the Eco for Economic Integration in West Africa
- ❖ CHAPTER 4: Summary of findings, Conclusion and Recommendations

## CHAPTER TWO

### HISTORICAL BACKGROUND OF ECONOMIC INTEGRATION AND THE ECO IN WEST AFRICA

#### 2.0 Introduction

Regional integration schemes in the globalized age are a status quo all regions of the world are engaged in for varying perceived benefits; political, economic or social. In Africa, regional integration schemes exist as a result of pan Africanism, the desire to have larger bargaining power on international fora and most importantly, seeing to the development of sub-regions and regions at large. This chapter is an overview of economic integration efforts in West Africa and the attempts by ECOWAS to institute a common currency for the region.

#### 2.1 Integration In Africa

It is recorded in the annals of history that integration was existent on the African continent before the arrival of the Europeans to the shores of Africa. Historians have noted that there was limited trade and free movement of factors of production amongst the various kingdoms of Africa (Michel, 2004). What is distinct about regional integration efforts in the last century in Africa, is the establishment of geographical boundaries now referred to as countries- an eternal remnant of the colonial period- as such the geopolitical outline of African states has nothing to do with the emergence of nation-states (Hartzenberg, 2011; Nyoni, 2015). Nevertheless, African countries have made efforts to overlook these geographic boundaries by the creation of regional and sub-regional bodies (Michel, 2004).

Integration schemes in Africa date back to 1910 and 1919 when the South African Customs Union (SACU) and the East African Community (EAC) were formed respectively (Geda and Kebret, 2008). Africa since then has experienced a plethora of integration schemes on the continent. Kayizzi- Mugerwa et al support this assertion by averring that in the 1960s, these schemes became more prolific in Africa as it had been an aspiration after the attainment of independence all over the continent. (Kayizzi- Mugerwa et al, 2014). Presidents like Kwame Nkrumah of Ghana and Leopold Sedar Senghor to mention but a few began a wave of pan Africanism which led to the creation of the now-defunct Organization of African Unity (OAU) (Asante, 2007). In May 1963, the OAU was formed as the first post-independence continental body by thirty- two heads of independent states in Addis Ababa, Ethiopia (ibid). With time, integration in Africa has provided a collective security arrangement (political and military) to counter conflicts in the region ( Kufuor, 2017).

The relevance of regional integration in Africa is often questioned in view of the enormous challenges militating against the process. Some analysts opine that perhaps, African countries should discard the prospects of integration and concentrate on building their individual economies as colonialism left in its wake divided and defragmented economies forced into countries by the resultant effects of the 1884 Berlin Conference. However, Asante flaws this argument by iterating the fact that regional integration has become a worldwide phenomenon and all nations around the globe are engaged in one type of integration or the other as a result of possible economic benefits. This has made it imperative for African countries to take advantage of such interactions (1995).

Another reason for economic integration in Africa is the fact that most African economies, on their own, are too small to negotiate with powerful global trading blocs. With the recognition of Regional Trading Agreements (RTAs) as an exception by WTO, African countries (the majority of which are small economies) stand a chance at negotiations as a consequence of better bargaining power contingent on representation as a bloc (Crowley, 2003). In fact, when it comes to trade, Africa lags behind the rest of the globe. This describes most African countries' failure to secure access to bigger markets; the intrinsic elevated neighbourhood trade costs, absence of an efficient structure for regional collaboration and resource pooling; and the pressure from development partners to pursue their own foreign policy goals on the continent. Africa, therefore, has very little option than to commit itself to the process of regional cooperation and integration (Asante, 1997).

According to (Anyanwu, 2014, UNDP, 2011) as cited in (Kayizzi- Mugerwa et al, 2014) and (Brenton and Hoffman 2016), regional integration has the potential for economic growth and eradicating extreme poverty. It was, therefore, expedient for newly born African countries, who were trying to find their footing after the departure of the colonialists, to unite to resolve issues of economic growth and increase the standard of living of the average African by eradicating extreme poverty. The proliferation of RTAs around the World has been associated with myriad reasons but the most important for developing economies is to promote sustainable regional development and facilitate the attainment of non-economic goals like conflict prevention and resolution.

## **2.2 The Concept Of Economic Integration**

Regional integration in Africa follows the model proposed by economist Bela Balassa. Economic integration as espoused by (Balassa 1961, 2013) specifically treats “economic integration” as both

a process and a state of affairs. State of affairs refers to the “absence of various forms of discrimination between national economies” and process includes “measures designed to abolish discrimination between economic units belonging to different national states” (Balassa, 2013). Balassa’s theory differentiates five levels of integration that advocates the removal of discriminatory measures. These levels are a Free Trade Area (FTA), a customs union, common market, economic or monetary union and a political union (Hartzenberg, 2011; Economic Commission for Africa, 2004). The above-listed levels of integration are discussed in detail below;

In an FTA, Member states agree to abolish tariffs or quotas on a list of products that they trade among themselves but retain individual tariffs or quotas against non-members or third party states. An instance is the free trade area of Africa (AfCFTA). A customs union is a popular tariff and quota FTA. In general, a customs union is described as a sort of trade block consisting of a free trade area with a common external tariff. The establishment of a customs union usually involves increased economic efficiency and closer political and cultural relations between member states. Gibb (1997, 2006) , McCarthy, (2003) and Kirk & Stern (2005) capture the customs union of southern Africa as an instance of a customs union. The European Union is the customs union with the most recognition and success on the globe ( Balassa, 2013; Horspool & Humphreys, 2012).

A greater level of economic integration is a common market. Here, most trade barriers to products are removed with some common policies on product regulation and the free movement of variables of manufacturing (products, capital, and labour) as well as business and services. A common market is synonymous with a single market. The aim of a common market is to ensure the

maximum movement of factors of production resulting from a suppression of geographic (borders), technical (standards) and tax (fiscal) barriers.

The economic union is the level of economic integration involving a decrease in constraints on the motion of production factors and a degree of harmonisation of domestic economic and financial policies in order to eliminate any discrimination resulting from variations in the above policies.

The final stage of integration is a political union. Otherwise referred to as total economic integration, this stage of integration represents a unification of economic policies of member states (monetary and fiscal) and the establishment of supranational institutions whose decisions are legal and binding on member states.

### **2.3 Economic Integration In Africa**

The OAU was formed on May 25<sup>th</sup>, 1963 in Addis Ababa, Ethiopia. It sought to rid the continent of colonialism and eliminate all forms of foreign oppression and domination in Africa such as the apartheid in South Africa. Embedded in its core objective (political) was the idea to encourage economic integration in Africa (Sesay, 2008; Okoloise, 2017). Presently the African Union is the main driving force for regional integration on the continent. It is important to underscore the fact the OAU is the precursor to the AU and existed till 2002 when it was changed into the AU by the Sirte declaration. To achieve the set objectives of the OAU, it put in place a plan to achieve economic independence and this became known as the Lagos Plan of Action. ("About the African Union | African Union", n.d., Geda and Kebret, 2008)

### **2.3.1 Lagos Plan of Action**

The zeal of African leaders to unify economies by the creation of import substitution industrialization impelled the signing of the Lagos Plan of Action; an initiative of the OAU adopted by heads of states in 1980 and supported by the United Nations Economic Commission for Africa (Vickers, 2017). The Lagos Plan of Action for economic development in Africa was a development plan with a timeline of twenty years (1980-2000), based on a self-reliant, inward-looking approach to solving Africa's development problems by using the continent's ample resources. (ibid).

It also aimed at integrating the five economic regions of Africa into an African Common Market by 2000(ibid). Although the notion of the LPA was based on development regionalism, as proposed by Adebayo Adedeji, it did not have adequate implementation plans (Bach, 2016 as referenced by Ismail 2016). The LPA's inability to meet its desired targets for Africa caused the OAU to rethink their strategies and adopt another, a decade later in 1991, known as the Abuja Treaty.

### **2.3.2 The Abuja Treaty**

Signed in 1991, the Treaty sought to unify the economies of African countries by free trade and monetary union. Hartzenberg iterates that the Treaty aims at fostering deeper African solidarity through industrialization, self-reliance and an endogenous development strategy (2011). It was introduced to cement the loopholes of the Lagos Plan of Action.

The Abuja Treaty establishing the African Economic Community (AEC) was adopted on June 3, 1991, with the aim of creating an African Common Market (ACM) (Hancock, 2014). This treaty, the legal foundation of the African Economic Community, recognizes eight RECs out of seventeen as the building blocks for regional integration at a pan African level (Ricks, 2016). The treaty has

a seven-pronged strategy of working through Regional Economic Communities (RECs) such as ECOWAS, as the building blocks towards continental integration. The Treaty has been in operation since 1994 and as part of its provisions; all the various regional economic groupings are enjoined to work together to harmonize their policies and programmes towards the creation of a single economic community (Hailu, 2014).

The relationship between the African Union and the RECs is mandated by Chapter Two of the Abuja Treaty, the AU Constitutive Act and the 2008 Protocol on Relations between the AU and the RECs (Abuja Treaty, chapter 2, AU Constitutive Act, Protocol on relations between AU and the RECs). According to the statutes of the AU, there are eight recognized Regional Economic Communities (RECs) in Africa even though only five of them are active currently. The most active RECs include the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), Economic Community of Central African States (ECCAS) and Southern African Development Community (SADC) (Gotschalk, 2012).

The African Union is greatly relying on the RECs to attain its goal for economic development in the region. Unfortunately, some RECS are far advanced than others tarrying the integration agenda. As monitoring and measurement of integration system, the Observatory on Regional Integration in Africa, highlighted trade and market integration, free movement of persons, macroeconomic policy convergence, harmonisation of sectoral policies and peace, security, stability and governance as benchmarks. These criteria were derived from the various protocols and treaties of RECs and the AU as a whole. (UNECA, n.d.)

Africa is home to the world's largest percentage of RECs that vary not only in its structure but also in their integration efficiency. Developed by the United Nations Economic Commission for Africa, the African Development Bank and the African Union, the African Regional Integration Index measures the progress of African RECs in different categories. This index highlights the East African Community (EAC) as the most progressive REC overall, largely due to its achievements in intra-regional trade and the free movement of people. The Economic Community of West African States (ECOWAS) has similarly chalked some progress but more of this progress is in the area of financial and macroeconomic integration. For instance, eight of the 15 countries that make up ECOWAS have a common currency: the CFA franc. The other countries which make up the second monetary zone (WAMZ) are working towards a single currency too which will later be merged with the franc. When realized, it will be known as Eco.

Despite these successes, Africa's development has experienced hiccups resulting from what (Draper and Halleon, 2007 p.7, Ismail, 2016 p.6) describe as "spaghetti bowl". Spaghetti bowl is a term that stemmed from the different African countries belonging to different RECs (creating overlapping membership) on the continent. This has birthed divided loyalty, a loss of focus and the pursuit of divergent objectives. The multiplicity of RECs in Africa exerts financial strain on the member countries as some double or triple as members of the about fourteen RECs on the continent (Brenton & Hoffman, 2016).

Besides, African integration efforts so far have been a reflection of trade liberalization in goods in line Article XXIV of the General Agreement on Tariffs and Trade establishing free trade areas and customs union. Paragraphs 4-10 of Article XXIV deals with the formation of regional trade

agreements and focuses on duties (i.e. tariffs) as the key benchmarks for trade liberalization (Crowley, 2003). Comparatively, minimal attention has been given to boost the sectors of transport and communication which are projected to bolster Intra African trade should they be established (Ismail, 2016; Mbekeani, 2010).

Aside from the aforementioned, the AEC integration process is facing challenges due to the deficit and deficient infrastructural systems, ambitious schemes and deadlines and differences in the structural characteristics of the integrating economies. (Vickers, 2017; Davies, 2016)

#### **2.4 History Of Economic Integration In West Africa**

ECOWAS, one of the most vibrant RECs in the African Economic Community, was established in 1975 by the Treaty of Lagos (Hartman, 2017). This Treaty was signed by fifteen Heads of State and Government of francophone and Anglophone countries in the West African sub-region. Cape Verde (the only Portuguese speaking country in West Africa) joined the next year to become the sixteenth member of the Community (Michel, 2004). It has been considered one of the most unique RECs as it sought to merge three distinct groups of countries (Anglophone, Francophone and Lusophone) with varying worldviews.

Before its establishment in 1975, the idea of such an institution was spearheaded in 1964 by President William Tubman of Liberia. Guinea, Ivory Coast, Sierra Leone and Liberia signed an agreement in 1965 to promote social and economic development in the sub-region but this yielded no fruits. Nevertheless, in 1972, new efforts sprung up in view of a union of West African States. The Presidents of Togo and Nigeria Generals Gnassingbé Eyadéma and Yakubu Gowon

respectively reiterated the idea and toured the sub-region to garner support in respect of the integration agenda (ECOWAS, n.d.; Forson, 2013). Using the drafts from these tours as a blueprint, the Treaty of Lagos was drafted and its signing led to the inauguration of ECOWAS (ibid)

ECOWAS, at the time of its formation, was initially limited to economic cooperation amongst member countries. The Community specifically sought to improve the living standards of people of the region by addressing issues of; low volumes of intra-regional trade, multiplicity of non-convertible currencies, underdeveloped financial systems, small fragmented markets and economic policy implementation discipline (Saho 2018). However, in 1993, it revised the Treaty of Lagos and expanded its scope to include issues of peace, security, stability and governance (Aning, 2004). ECOWAS Member States in Article 3 of the Revised Treaty, affirm their vision of raising the standard of living of their people by fostering relations amongst themselves to promote cooperation and integration which is foreseen to culminate into an Economic Union, maintain and enhance economic stability and contribute to the development of the continent at large. (ECOWAS, 1993, 2010).

The Community has an eight branch organizational structure headed by the Authority of Heads of State and Government, followed by a Council of Ministers, the Community Parliament, the Economic and Social Council, the Community Court of Justice, the ECOWAS Commission, the ECOWAS Bank for Investment and Development (EBID) and the West African Health Organization (WAHO) ("Governance Structure | Economic Community of West African States (ECOWAS)", n.d.). To address specific issues and decentralize work, the Community has

specialized agencies to deal with various aspects of its work. These specialized agencies are; West African Monetary Agency (WAMA), Regional Agency for Food and Agriculture, West Africa Power Pool, ECOWAS Regional Electricity Regulatory Authority( ERERA) and the West African Monetary Institute (WAMI). (ibid).

Thus far, the creation of the ECOWAS Trade Liberalisation Scheme (ETLS) has been a major policy move by the Community to achieve its set objectives. Although formulated in 1979, the scheme did not come into effect until 1990. The rationale was the creation of a customs union in fifteen years, expected to be affected by the gradual reduction and subsequent abolition of customs duties (Hartmann, 2017).

Article 12 of the original Treaty on the liberalization of trade states “There shall be progressively established in the course of a transitional period of fifteen (15) years from the definitive entry into force of this Treaty, as prescribed in this Chapter, a Customs Union among the Member States.” Within this Union, customs duties or other charges with equivalent effect on exports shall be eliminated. Quota, quantitative or like restrictions or prohibitions and administrative obstacles to trade among the Member States shall also be removed. Furthermore, a customs union tariff in respect of all goods imported into the Member States from third countries shall be established and maintained” (ECOWAS,1975). The ETLS is, therefore, a manifestation of this Article.

In conformance to a key pillar of integration, ECOWAS currently has a protocol, instituted in 2008, on the free movement of persons, residence and establishment, which enables movement across countries in the region without restrictions. (ECOWAS, 2008). This is closely related to the

FTA. This protocol is one of the many achievements of ECOWAS. It has led to an abolition of visa entry requirements and quota schemes, which some countries in the sub-region had been operating to protect public order, national security and the labour market. The Community has also instated an ECOWAS travel Certificate and an ECOWAS passport. However, ECOWAS identity cards are still being instituted.

In 2015, ECOWAS went beyond free trade among member countries and established a common external tariff transforming the region into a customs Union and setting the premise for deeper integration. This level of integration continues to be a work in progress. The sub-region is concurrently putting measures in place towards a common currency and this is affirmed by Oduro (2015) as he espoused that economic integration in Africa no longer borders solely on trade agreements but has expanded its focus to capture monetary, economic and financial stability considerations. These in all measure, illustrate efforts towards achieving a common market soon.

## **2.5 Monetary Integration In West Africa**

The idea of a common currency “the Eco” is not the first of its kind in Africa or West Africa to be precise. In the era of colonial rule in West Africa, the colonizers put in place a common currency to aid the administration of their colonies. The currency for British West Africa was the British West African Pound and Francophone West Africa, the CFA Franc. Uche, (2001; 1999, p.670) posits that in British West Africa, legislations were concretized to legitimize the British currency and oust all other forms of currency (as cited in Uche 2002). The West African Currency Board (WACB), headquartered in London, was then established in 1912, with the sole objective of

serving as the source and control centre of the currency in the West African colonies, Protectorates and Trust Territories of the British (Uche 2002).

One of the arguments for a single currency by its proponents is increased intra trade amongst members of the region. (Frankel & Rose, 1996; Rose & Engel, 2000). However, the British West African Pound was unable to foster such integration. This was partly because the agenda of the colonizers was not to open up economies in the region to one another. Instead, they sought to develop their colonies for two reasons. First, to fuel the production of raw materials for their factories and also to return their finished goods as the colonies provided ready market (Uche 2001). On the eve of independence in the 20<sup>th</sup> Century, the WACB still remained an emblem of colonialism and to certify their newly won freedom, young independent British West African states, one after the other, broke away from the Board thereby establishing their sovereignty by the creation of central banks and new individual currencies with their unique features. Ghana set the pace in 1957, followed closely by Nigeria in 1959, Sierra Leone and Gambia in 1963 and 1971 respectively (Uche, 2001; Uche 2002). Francophone West Africa, on the contrary, maintained their currency with renewed agreements with France. The CFA franc is now pegged to the Euro as a result of reserves kept in the French Treasury (Martin, 1986).

In contrast, the 21<sup>st</sup> century is marked by a renewed vigour towards integration in the region as it seems a sine qua non in this globalized age. ECOWAS, since the establishment of the Economic Monetary Cooperation Programme (EMCP) and the West African Monetary Zone (WAMZ), is determined in its efforts to realize a common currency for its members. This is in line with the Abuja Treaty's objective of monetary integration. Africa as a region is in a quest for a single currency the "afro". The Treaty seeks to achieve this by merging all monetary zones in Africa,

expected to be created with the eight RECs serving as building blocks for integration in the region. The onus lies on the RECs to expedite this agenda of the AU. Regrettably, this vision of ECOWAS to date is still a mirage (Chuku, 2012).

In Africa, two main monetary unions can be singled out; the West African Economic and Monetary Union (WAEMU) and the Economic and Monetary Community of Central Africa (CAEMC). WAEMU comprises an eight-member union of French West African States (will be discussed in further detail shortly) and CAEMC is a six-member union of French Central African States namely; Cameroun, Gabon, Chad, Republic of Congo, Central African Republic and Equatorial Guinea (Samba & Yan, 2010). These are identical currency unions, established by France, which use a single currency; a variant of the CFA franc. The Francophone monetary unions have in common a central Bank; Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO) and Banque des Etats de l’Afrique Centrale (BEAC) respectively (Van de Walle, 1991). Before 1999, the CFA franc was pegged to the French franc but is currently pegged to the Euro (Irving, 1999). In West Africa, The Community has two subdivisions/blocs. These are the WAEMU also known by its French acronym UEMOA and the WAMZ. The WAEMU is a grouping of former French colonies in West Africa and the WAMZ is a grouping of mainly Anglophone countries in the region.

### **2.5.1 WAEMU/UEMOA**

The West African CFA zone, (WAEMU) known by its French version UEMOA is an eight-member prominent monetary union in the sub-region. Its members include Cote d’Ivoire, Benin, Togo, Mali, Niger, Senegal, Guinea Bissau and Burkina Faso. It was birthed out of the cinders of the West African Monetary Union (WAMU). In 1948, in Western and Central Africa, the Franc

zone and France created a financial agreement. France institutionalized this structure on the achievement of autonomy by its colonies (Jeanney, 2006).

The Franc zone in West Africa was formed in 1962 and was known as the West African Monetary Union. Headquartered in Paris, its supreme authority was the Council of Ministers constituting a representative of each Member State. That same year, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) was established as a common Bank, for the coordination and management of all financial activities of Francophone West African countries. It stipulates the regulations banks and all forms of financial institutions in the region must adhere to. As one of its key functions, it plays a supervisory role by monitoring activities of the above categories of institutions. This catapulted the creation of the Banking Commission in 1990 to organize and supervise the banking system of Francophone West Africa. (Kablan, 2007).

The WAMU was created on the basis of the principle of a set parity between the French franc and the CFA and the complete convertibility of the CFA franc to the French franc, pooled reserves and the implementation of a common exchange policy against the globe. The CFA's exchange rates were tied to the French franc between 1948 and 1994 at the rate of one French franc to fifty CFA francs. (Uche, 2001) This rate was devalued in 1994 because, over time, the CFA's real exchange rate with the French Franc had valued, resulting in uncompetitive economies of the WAMU nations. (ibid)

During the first decade of the WAMU's existence, its role was quite dormant. This was because the BCEAO was tasked with maintenance of liquidity and not monetary or price stability. Neither

was it responsible for the balance of payment equilibrium. After signing the Yaounde and Lome Conventions, WAMU became linked to the EU. With the aim to reduce France's control, francophone West Africa renegotiated the conditions for the currency region and reforms were made in 1974 in respect of rediscount facilities (Jeanneney, 2006). The reforms enabled a 45% annual increment in monetary supply in each member country instead of a 10% annual increment.

In 1994, WAMU expanded its scope to include economic activities in the region hence its new name WAEMU/ UEMOA. UEMOA countries enjoy currency convertibility and economic stability as a result of the CFA being pegged to the Euro. ( Uche, 2001)

### **2.5.2 West African Clearing House (WACH)**

The idea of the WACH pre-dates the establishment of ECOWAS. A sub institution of the WACH, The Association of African Central Banks in 1972 set up a Study Group to examine trade and monetary relations in the sub-region (Uche, 2001). The findings from their report showed that the problems of intra trade in West Africa stem from the delays in receiving payments. The delays, the report realised, were resultant effects of balance of trade difficulties and a paucity of foreign exchange in member states (ibid). On this premise, the report concluded that; “the establishment of some type of payments arrangement that would facilitate prompt receipt of export proceeds by exports would stimulate intra-sub-regional trade” (ibid)

The report suggested the following operational modalities: Clearing House membership should be made optional ; payments for transactions between BCEAO member nations that already have an agreement should not be channelled through WACH ; all intra-regional transactions should be

channelled through WACH; with the exception of intergovernmental grants and loans ; all clearing house accounting transactions are carried out in the West African Account Unit (WAUA) to be fixed at a parity to the International Monetary Fund (IMF) Special Drawing Right ; the settlement period for all WACH debts should be one month and each country should extend a global interim credit line ; (based on a percentage of total intra sub-regional trade) to the rest of the sub-region as a whole. (Uche, 2002)

- **Objectives of WACH**

(Uche, 2002) captures the following as the reasons for the formation of the WACH. To;

- ❖ Promote the use of national currencies of the membership of the clearing house
- ❖ Encourage liberalisation of trade among member countries and
- ❖ Promote monetary cooperation

The Clearing House regardless of the unit of measurement (WAUA) was still fraught with inconvertibility of currency issues, quantitative restrictions on trade in goods and services as well as capital movement in the region and the absence of an international trading market. Finding solutions to these problems are fuelling the efforts for the Eco and the gradual merger with the CFA franc. Protocol A/P.1/7/93 adopted by the Authority in Cotonou on 24th July 1993, replaced the WACH with West African Monetary Agency (WAMA).

WAMA's objective is to monitor and coordinate the implementation of the EMCP. Other functions of WAMA are to promote the use of national currencies, encourage and promote trade and exchange liberalisation among the Member States, enhance monetary cooperation and consultation among Member States, facilitate the harmonisation and co-ordination of

monetary and fiscal policies, initiate and promote policies and programmes on monetary integration and ensure the establishment of a single Monetary Zone.

### **2.5.3 Economic Monetary Cooperation Programme (EMCP)**

The EMCP is considered one of the most conspicuous schemes geared towards monetary integration in the sub-region. In 1983, the Authority of Heads of State took a decision (Decision A/DEC.2/7/87) to establish a monetary union to facilitate trade within the region birthing the EMCP which was adopted on July 2, 1987. On 10<sup>th</sup> December 1999, Decision A/DEC.17/12/99 adopted convergence criteria as part of the EMCP. The aim of the EMCP was to establish a synchronized financial system and common management institutions that could facilitate a single monetary zone by 2000. The programme consisted of a set of specific objectives that were foreseen to be implemented in three phases.

The first phase (1988- 1992) entailed a strengthening of the existing payment mechanism of the West African Clearing House. This, it sought to achieve, by settling outstanding payment arrears in the clearing mechanism; that is introducing new payment instruments such as the Traveller's cheque. The second phase targeted limiting convertibility of national currencies in the region by removing restrictions to their use. The last phase focused on the harmonization of monetary policies, climaxed by the creation of a single currency union which would include the use of a common convertible currency and the creation of a common central bank.

#### **2.5.4 The Second Monetary Zone: The West African Monetary Zone (WAMZ)**

The West African Monetary Zone came into existence because of a lack of political will between the CFA and non- CFA countries for stronger monetary integration under the auspices of the EMCP. It is a proposed currency union pioneered by Ghana, Nigeria, The Gambia, Guinea and Sierra Leone in charge of expediting the existence of the Eco. Liberia joined in 2010. WAMZ is a fast track approach of ECOWAS created to rival the already existent WAEMU and facilitate monetary integration. (This was spearheaded by Ghana and Nigeria.) Besides, merging two monetary zones would prove an easier task than merging countries with different currencies (Harvey and Cushing, 2015). The initial plan had always been to merge the CFA and non-CFA monetary regions into one currency but to do so, member countries would have to meet ten convergence criteria as set under the EMCP. Compliance with these criteria creates a potential for macroeconomic stability and equitable growth among member states. (Saho, 2018)

According to (Nkwatoh, 2018), the ten criteria have been grouped into two; four primary and six secondary. These ten benchmarks are as follows:

- **Primary criteria**
  - i. Single-digit inflation rate at the end of each year
  - ii. Fiscal deficit of not more than 4% of GDP by the year 2000
  - iii. Central bank financing of budget deficit to be limited to 10% of previous year's tax revenue
  - iv. Gross external reserves to cover at least three months of imports

In addition to the above four, the following would be observed as a support system.

- **Secondary criteria**

- i. Public investment to be more than 20% of tax revenue
- ii. Maintenance of positive real interest rates
- iii. Wage bill to tax revenue equal to or less than 35% of total tax revenue
- iv. Tax revenue should be equal to or higher than 20% of GDP
- v. Prohibition of new domestic debt arrears and liquidation of all existing arrears
- vi. Maintenance of real exchange rate stability in the context of an exchange rate mechanism

Since the inception of WAMZ, the vision of a common currency has been a mirage. The Eco was initially scheduled for launch in 2003 but was postponed as no WAMZ member country met the criteria. With the optimism that member countries would meet the benchmarks, the launch date was further postponed to 2005 and then to 2009. The Central Bank Governors of ECOWAS finally pushed the launch date to 2020 predicated on the inability of all member countries to meet the ten set convergence criteria (ibid). Nonetheless, member countries have individually met some of the criteria since 2000; no one country has met all convergence criteria and all countries have not met the criteria in the same year.

#### **2.5.6 West African Monetary Union (WAMI)**

In January 2001, the West African Monetary Institute (WAMI) was established with the sole objective to undertake technical preparations for the establishment of a common West African Central Bank (WACB) and the launching of a single currency for the WACB and for the West African Monetary Zone (WAMZ). (WAMI, n.d.) With time, the Institute's mandate has expanded

to encapsulate taking measures to facilitate trade integration, financial sector integration, payments system development and statistical harmonization (ibid).

In order to achieve its set objectives, WAMI conducts bi-annual onsite and monthly offsite multilateral surveillance missions to monitor member states compliance with both qualitative and quantitative benchmarks (ibid). This is because, for the creation of a monetary union, there is a need for member countries to minimize asymmetric shocks by meeting the qualitative and quantitative benchmarks set by the WAMZ.

Table 2.1 shows the level of compliance of the WAMZ Member States to the Convergence criteria since they took effect in the year 2001 till 2009 when the roadmap for achieving a common currency was changed.

**Table 2. 1: Compliance of WAMZ Member States to Convergence Criteria**

Country/ Year	2001	2002	2003	2004	2005	2006	2007	2008 1 <sup>st</sup> half	2008 2 <sup>nd</sup> half	2009 1 <sup>st</sup> half	2009 2 <sup>nd</sup> half
The Gambia	2	0	1	4	4	6	3	5	3	4	3
Sierra Leone	3	3	0	1	1	0	2	2	1	2	2
Ghana	1	0	2	3	3	3	4	2	2	2	3
Liberia	4	4	3	2	3	4	4	3	4	4	4
Nigeria	4	4	4	5	5	5	6	5	5	6	6
Guinea	5	3	1	1	3	2	4	4	4	7	3
Cabo Verde	3	3	4	4	4	4	4	4	3	2	4

Source: WAMI 2009, 2010

With the convergence criteria taking effect after WAMZ was set up, Member States were faced with aligning their economies to meet ten particular indices which would determine whether or not the sub-region could have a currency. Table 2.1 demonstrates how WAMZ countries fared with regards to attaining the benchmarks set. Averagely all countries failed to meet the criteria. However, Nigeria stood out as it was able to meet with some consistency five out of the ten criteria attaining even six in 2007 and 2009.

## CHAPTER THREE

### PROSPECTS OF THE ECO FOR ECONOMIC INTEGRATION IN WEST AFRICA

#### 3.0 Introduction

This chapter, serving as a sequel to chapter 2, focuses on achieving the objectives of this study. It is divided into three main sections. The first section highlights the importance of the Eco to West African economic integration, the second recounts the progress ECOWAS has made towards the achievement of the currency and the third assesses some challenges the implementation of the currency is facing in the sub-region.

#### 3.1 Objective 1: How The Eco Intensifies Economic Integration In West Africa

The origin of a common currency is rooted in the desire to address “the problem of multiplicity of currencies and exchange rate regimes” (Saka et al., 2015) which has served as a barrier to trading amongst countries. Mr Obeng Darko (Head, IEPU, ERFD, Ministry of Finance), Mr Nazar (Deputy Head, IEPU,ERFD, Ministry of Finance) and Dr Cudjoe ( a lecturer from the Economic Department of the University of Ghana ) , affirm this assertion as they emphasized that a common currency will bridge the barrier between the eight different currencies existent in West Africa. Mr Johnson (Director, Africa Bureau, Ministry of Foreign Affairs and Regional Integration) explained that money is lost when exchange occurs due to exchange rates and payment costs on transfer. Hence, the Eco would eliminate exchange rate volatility and its associated risks, therefore increasing trade within the region while lowering transaction costs.

In the same vein, trade promotion creates a larger market for businesses. Empirical evidence traced from the seminal paper of Rose & Engel (2000) proves that members of currency unions experience heightened intra trade as much as 300% than non-members, apparently because goods targeted for a country-wide market, now have access to a region-wide market. To meet this demand, businesses in the region would sign up to the ECOWAS Trade Liberalization Scheme (ETLS), have access to the wider market, supply the region and in the long run solidify economic integration efforts. When production increases and costs are lowered, West African countries would achieve economies of scale. Zhao and Kim (2009) add that business cycle correlation increases as countries in a region trade amongst themselves.

Also, the ETLS exporters face issues of non-tariff barriers and pricing. When the Eco comes to fruition, businesses would desist from quoting prices in other currencies outside the region such as the dollar (which is seen as a very stable currency) as the sought-after stability would be provided by their own currency. The Eco would also have the same value in Nigeria, Senegal, The Gambia and elsewhere in West Africa. Consequently, competition arises in the wider market ensuring the quality of goods and services and affordable pricing. With economies open to one another, non-tariff barriers would be eased to expedite trading within the region.

Similarly, Mr Obeng Darko and Mr Nazar shared that a single currency would cause demand and supply of goods and services in the region, which will spur on integration. Once the Eco is in existence, businesses would want to move in the sub-region and this demand will be a basis for governments to collectively pool resources for the development of regional infrastructure such as transport in the form of roads and railway lines to improve interconnectivity in the region.

Infrastructure such as the West African Power Pool (WAPP) can be expanded and more road networks such as the Abidjan to Lagos Highway can be undertaken to link countries and open their economies to one another (R. Nazar, Personal Communication, July 26, 2019).

Additionally, the notion of integration connotes a borderless region and this is an advantage of a single currency West Africa can benefit from. The Eco would facilitate the unhindered movement of labour and people in the region by dismantling barriers, thereby “strengthening cultural, economic, social and political integration” (Qureshi and Tsangarides, 2006; Dramani, 2011, Saka et al, 2015). The existence of a common Central bank will spill over into areas such as the Community Parliament and a single judiciary for ECOWAS. Likewise, the distance between Badagry (the exit point from Nigeria to Benin) and Noé ( the entry point from Ghana to Cote d’Ivoire), is estimated to have 120 border posts and security checkpoints which would be dismantled facilitating easy movement across West Africa (Adeniran, 2012).

According to Mr Nazar, the common currency presents West Africa and Africa as a whole (should Africa have a common currency) the chance at larger bargaining power on the international front. In line with the Abuja Treaty of the AU, which aims at a single African Economic Community and a common currency for Africa, ECOWAS’s single currency would help materialize this goal of the AU as ECOWAS is the AU recognized REC in West Africa which is serving as one of the building blocks for AU integration. Also, Africa’s bequest of resources would allow it to contribute and influence global trade.

Finally, the Eco would increase the standard of living of the West African people. With economies opened to one another, coupled with free movement of factors of production, a wider market is created creating a “widening of business/ trade-related income-earning opportunities for the citizenry to improve standards of living”(Saka et al. 2015).

## **3.2 Objective 2: Progress Made By ECOWAS So Far Towards the Achievement of the Eco**

### **3.2.1 Background**

WAMI was formed in 2001 to expedite the process of achieving a common currency in the WAMZ by 2015 and a single currency in ECOWAS by 2020. Since its inception, data and statistics by WAMI reports during the period have proven that none of the member countries have met the minimum convergence criteria and “structural benchmarks” required for the establishment of a monetary union in West Africa (Bank of Ghana, 2019a, WAMI, 2012, 2013, ). Mr Obeng Darko added that ECOWAS realized that with the pace of implementation of the double-track roadmap, there was no likelihood that member countries would meet the set entry targets for a Monetary Union.

After the ECOWAS Secretariat changed into a Commission in June 2007, it was directed by the Authority of Heads of State and Government to re-examine the EMCP to introduce the single currency. This culminated in the creation of a roadmap for the ECOWAS Single Currency Programme (ESCP). Adopted on May 25, 2009, by the ECOWAS Convergence Council, the ESCP's objectives were to “(i) introduce a single currency in WAMZ by January 2015 and (ii) introduce a single currency in ECOWAS by 2020” (Bank of Ghana, 2019a ; O.Darko, Personal Communication, July 16, 2019 ).

### **3.2.2 Revision of Roadmap**

To fast track the introduction of a single currency, the Authority of Heads of State and Government in 2013 at its Extraordinary Summit in Dakar on 25<sup>th</sup> October 2013, set up a Presidential Task Force to head the creation of a single currency in ECOWAS. The Presidential Task Force comprised the Presidents of Ghana and Niger respectively ( Bank of Ghana Official, Personal Communication, June 20, 2019; O. Darko, Personal Communication, July 16, 2019; R.Nazar, Personal Communication, July 26, 2019).

During the 44th Ordinary Session of Heads of State and Government of ECOWAS on 24th March 2014 in Yamoussoukro, the Presidential Task Force recommended the abolition of the double-track approach for a single-track approach with a revised roadmap of activities of implementation of the single currency in ECOWAS. This is evidenced in the 2014 ECOWAS Annual Report where it is clearly stated that "on the bid to accelerate progress towards the realization of the ECOWAS single currency by 2020, the single-track approach for the monetary integration programme was adopted ... and the revision of the roadmap for the ECOWAS single currency" (ECOWAS, 2014 p.14).

A key component of the new roadmap was the establishment of an ECOWAS Monetary Institute (EMI) by January 2018, to serve as a transitory body charged with preparatory activities for the establishment of a common Central Bank in ECOWAS. Also, the EMI would take over activities that were being undertaken by other regional institutions which fall within its mandate (Bank of Ghana, 2019d). Mr Obeng Darko added that on December 2015, the Heads of State of Côte d'Ivoire and Nigeria were added to expand the Presidential Task Force membership.

On 24<sup>th</sup> October, 2017 the Presidential Task Force at its 4<sup>th</sup> meeting in Niamey asked the Ministerial Committee to hold a meeting within three months in order to submit a new roadmap, which would take into account a re-examination of the convergence for consideration at the 5<sup>th</sup> meeting of the Task Force (Bank of Ghana, 2019b). Mr Obeng Darko and the Bank of Ghana official affirmed that this newly revised roadmap was adopted in 2018 at a meeting in Accra on February 21<sup>st</sup>, 2018. The revised roadmap is a compilation of 39 activities divided into 10 programmes with a projected implementation date of 2020. These 10 divisions are; (i) coordination of economic policies, (ii) macroeconomic convergence and stability, (iii) consolidation of the ECOWAS Common Market, (iv) harmonization of statistical standards and practices, (v) harmonization of exchange rate policy frameworks, (vi) harmonization of monetary policy framework, (vii) financial integration, (viii) interconnection of payment systems, (ix) Creation of ECOWAS Central Bank, (x) selection of Qualified Countries and the launch of the ECOWAS monetary union (Bank of Ghana Official, Personal Communication, June 20, 2019).

**Table 3. 1 Status of Implementation of the Revised Roadmap for the ECOWAS Single Currency Programme**

<b>PROGRAMME</b>	<b>STATUS OF IMPLEMENTATION</b>
<b>1. Coordination of economic policies</b>	Progress in (i) the development of a Communication Strategy for the single currency programme (ii) harmonization of Public Finance framework Delay in (iii) harmonization of Government finance statistics
<b>2. Macroeconomic convergence and stability</b>	Progress on the strengthening of multilateral surveillance. Multilateral surveillance is done

	<p>every 6 months to check the Member States level of convergence.</p> <p>Delay in the establishment of the Community Solidarity and Stabilization Fund</p>
<b>3. Consolidation of ECOWAS Common Market</b>	Call for full implementation of ETLs and all Member States are implementing the Common External Tariff (CET)
<b>4. Harmonization of Statistical standards and practices</b>	Delays due to lack of funding
<b>5. Harmonization of exchange rate policy framework</b>	In 2019, the Convergence council accepted a flexible exchange rate regime
<b>6. Harmonization of a monetary policy framework</b>	Inconclusive as the Working Group (team of Experts) created has not reached a consensus in recommending the appropriate frameworks
<b>7. Financial Integration</b>	<p>(i)Delay in implementation of phase 2 of the Africa Capital Market Integration Programme(WACMIP)</p> <p>(ii)Implementation of Insurance Programme pending due to lack of funding</p>
<b>8. Interconnection of payment systems</b>	WAMA, WAMI & ECOWAS Commission is in collaborative works to accelerate implementation in 2019.
<b>9. Creation of the ECOWAS Central Bank</b>	Activities such as the establishment of the ECOWAS Monetary Institute, proposal and adoption of the name of the ECOWAS Central Bank are inconclusive. Ghana has been designated to host the ECOWAS Central Bank.
<b>10. Selection of qualified countries and Launch of the ECOWAS Monetary Union</b>	<p>(i)Eco has been decided as the name for the currency by Authority of Heads of States and Government June 30<sup>th</sup>, 2019 at the 55<sup>th</sup> Ordinary Session.</p> <p>(ii)Determination of unit of Account based on the weight of the eight regional currencies is pending.</p>

	(iii) Whichever two countries are ready would start the monetary union and the others would join as and when ready.
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Source: Author's Construct

The revised roadmap was estimated for USD 9,300,220 of which a financing gap of USD 6,054,062 would have to be raised. Mr Nazar said that for adequate financing of the roadmap activities, the ECOWAS Commission highlighted the need to set up a Special Fund to raise the financing gap. To this effect, Nigeria, Ghana and BCEAO committed to paying USD3, 000,000, USD 1,000,000 and USD 2,000,000 respectively. As of 2019, only Ghana and BCEAO have paid their contributions.

Furthermore Mr Obeng Darko, Mr Nazar and the Bank of Ghana official iterated that the revision of the roadmap saw a rationalization of the convergence criteria from a total of ten to six; four primary criteria and two secondary criteria. Supplementary ActA/SA.01/12/15 adopted in Dakar on 16 December 2015 rationalised the convergence criteria to four primary and two secondary criteria. It also set the deadline for macroeconomic convergence to 31 December 2019 (Saho, 2018). The criteria consists (i) an average annual inflation rate: lower than 10%,(ii) budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3%,(iii) Central Bank Financing of Budget Deficit: lower than or equal to 10% of previous year's revenue, (iv) gross external reserves: higher or equal to three (3) months of imports cover as primary criteria and nominal exchange rate: stable (+/- 10%), public debt to GDP ratio: less than or equal to 70%, as secondary criteria.

In the first half of 2019, Mr Obeng Darko highlighted that ECOWAS held a Ministerial meeting in Abidjan to which Mr Nazar served as the representative of the Ministry of Finance. The agenda of this meeting was to decide the name, the symbol and design of the currency and the exchange rate system to be adopted. He continued that names such as Cola, Kudi and Eco were submitted for deliberations by the Technical Committee. Eco eventually won as it had already been in existence for some time in the WAMZ and was representative of the region's name ECOWAS pending approval from the ECOWAS Authority. The approval was given later on June 30<sup>th</sup>, 2019 at the 55<sup>th</sup> Ordinary Session of the Authority of Heads of State and Government in Abuja, Nigeria (Abdul, 2019).

### **3.2.3 Achievements so far**

To begin, according to Mr Obeng Darko, since the new roadmap came into effect, data and statistics harmonization has been one of the feats ECOWAS has chalked. Harmonisation of data and statistics of the Member States has considerably improved especially in the WAMZ. To ensure reliance and accuracy of macroeconomic data, common platform and classification systems have been adopted (Igue et al, 2018). This falls in line with “regional methodologies and international best practices such as the System of National Accounts (SNA), 1993 and 2008, the ECOWAS Classification of individual Consumption by Purpose (COICOP), the International Monetary Fund Government Finance Statistics Manual (IMFGFS 2001), the Balance of Payments Manual (BPM6) and the Monetary and Finance Statistics Manual” (ibid). Mr Nazar asserted that this harmonization is necessary for easy comparability of fiscal charts.

Secondly, mechanisms have been put in place by WAMZ countries to harmonize payment systems through the banking system. This has reduced demand for the dollar as a medium of exchange.

Monitoring and evaluation have been heightened. There is a joint multilateral surveillance system that travels throughout the countries in the region every six months, to check individual countries performance in relation to the convergence criteria. After surveillance, they proffer suggestions and advice countries on how to meet the criteria (R. Nazar, Personal Communication, July 26, 2019).

Another noteworthy point is progress in the area of economic policy coordination. This takes into consideration the different laws of the individual Member States. Policies are being implemented by West African countries to help check borrowing levels, reduce public debt and develop mechanisms of revenue pooling for the region. These policies are in line to help achieve the criterion of fiscal deficit of not less than 3% of GDP. Countries are also checked to ensure inflation is not above the threshold as stipulated in the primary convergence criteria (single-digit or equal to 10%). The Member States have also adopted a policy of “zero financing culture” resulting in better performance in the region (O. Darko, Personal Communication, July 16, 2019).

In the area of trade liberalisation, the ETLS has improved and yielded some level of growth. In countries like Sierra Leone and The Gambia, enterprises under ETLS have increased. In Sierra Leone, 5 additional enterprises were approved by the Sierra Leonean National Approval Committee increasing the enterprises party to the scheme to a total of 14 as at June 2017, whilst The Gambia witnessed an addition of two enterprises totaling 23 enterprises currently under the Scheme (Bank of Ghana, 2019a). The Gambia signed a bilateral agreement with Senegal to ease the passage of goods through the two countries. (ibid)

In Liberia, the ETLS protocol took effect in early January 2017 with the passage of the Bill by the National Legislature. This put the country in "a multilateral trading system to attract foreign participation in the domestic economy" (ibid). Fortunately, the country has designed a roadmap to run an effective Scheme focusing on adoption of procedures and modalities and sensitization. The ECOWAS Commission also boosted these efforts by organizing several activities in Monrovia which included training and private sector sensitization. Nigeria, on the other hand, scored the highest number of enterprises and products at 309 and 156 respectively as at December 2016. This was deemed a considerable growth compared with 30 enterprises and 81 products the year before in 2015. Roadblocks and checkpoints have also been reduced to facilitate the smooth running of the Scheme. Since its inception, 1,734 Nigerian enterprises have been registered unto the Scheme (ibid). The sensitization efforts and country-based support from ECOWAS to the countries in the WAMZ region with regards to the ETLS, coupled with trading in the UEMOA zone increased intra trade in the sub-region. Igue et al (2018) recorded an increase in intra trade in the sub-region. It has been in a gradual progression since 2008 at 8.5% with slight regression in 2010 and 2014. 2017 WAMZ Trade Integration Report nonetheless affirmed intra trade to be at 15.36% in 2017 (WAMI, 2017).

In the area of Capital Markets Integration, ECOWAS can also boast of an achievement. "Cross-listing and trading of shares across the region have been improving". This is possible due to considerable progress made by creating a "harmonized regulatory environment". In December 2016, the exchanges comprised 273 listed companies and USD 76.9 billion in market capitalization ranking ECOWAS capital market the second-largest in Africa (Bank of Ghana, 2019a). In addition, there have been improvements in infrastructure in the region. ECOWAS has to its credit

a \$500m cross border West African Gas pipeline which would serve as the power supply to the sub-region and a total of 9000 km of road and 1100 km of interconnecting road are also being constructed to open up land-locked countries ( Miketa and Merven, 2013; Brown, 2013).

Notably, there has been a change in the structure of production in the West African economies. West African economies have evolved with time morphing from primary sector domination to tertiary sector domination. As of 2018, the tertiary sector domination in the WAMZ was more than 50% of GDP with the exception of Sierra Leone which recorded 49% (Igue et al, 2018). All these efforts in recent times were geared towards boosting intra-regional trade, economic openness while creating a conducive environment for the currency to thrive. Igue et al, continued that the tertiary ( services) sector is already diversified and with steady growth, it would poise the region for the introduction of the Eco.

### **3.3 Objective 3: The Challenges Facing the Implementation of the Eco**

#### **3.3.1 Low intra trade level**

As documented in Okorie, (2018), The Banjul Declaration highlighted trade integration as a key requirement for monetary integration. Trade integration is the foundation on which a common currency can build on. Dr Gebe (Lecturer, LECIAD), Dr Cudjoe and Mr Johnson agreed that a currency cannot be in existence before trade integration occurs. In their opinion, the region must be engaged in growing intra trade which would later be advantaged by the existence of a common currency. Intra –ECOWAS Trade since 2009 is recorded 8.5 in 2009,7.26 the next year, 9.23, 9.23, 12.39,11.37,13.23,15.7 and 15.36 as at 2017.

As argued by Balassa (1961), in the linear module of integration, there are stages of integration which are built on trade. The FTA and CU should create deeper integration and this is not the case in the West African sub-region. The ETLS and the introduction of a CET in 2015 are operational in theory only. In practice, the FTA and Customs Union are not well established to distinguish the region as such. Mr Nazar, Dr Gebe and Dr Cudjoe clarify that intra-regional trade is below 20%. Dr Gebe submitted and (Saka et al., 2015; Dramani, 2011) agreed that it is only when a region has a high level of intra trade that the benefits of a currency union such as easy transactions resulting from easy convertibility of currencies, absence of foreign exchange and easy movement of factors of production to facilitate trade, that a currency union can be of profit to the region hence stimulating growth and development in the region.

According to ECOWAS, West Africa's external trade is dominated largely by a particular number of products and "generates local value-added due to the preponderance of fuels coming from extractive industries" ("Import and export | Economic Community of West African States (ECOWAS)", 2019). ECOWAS further records that this external trade is large with Europe (28%), the Americas (40%), Asia and Oceania (16%) and the Middle East (0.3%). In this measure of external trade, Nigeria dominates with 77% of exports, with Cote d'Ivoire (10%), Ghana (4%), Senegal (2%), Mali (1.7%) and Benin, Niger, Burkina Faso, Togo, Guinea, (1% each) and the rest with less than 1%. On one hand, West Africa's major exports are Fuel (75%), "Cocoa and cocoa food preparations (5%)", "precious stones (3%)", and rubber, plastics, edible fruit, cotton, wood and wood products, fish and shellfish (1% each). (ibid)

On the other hand, regional imports are dominated by approximately ten goods. Fuels are still at the forefront of this chart. They make up 24% of total imports. These are followed by motor vehicles, tractors, cycles and other vehicles(2<sup>nd</sup>), machinery, mechanical appliances and boilers (3<sup>rd</sup>), machinery and electrical appliances(4<sup>th</sup>), cereals (5<sup>th</sup>), plastics (6<sup>th</sup>), works in iron, iron and steel (7<sup>th</sup>), iron, cast iron, steel (8<sup>th</sup>), pharmaceuticals (9<sup>th</sup>) and fish and seafood (10<sup>th</sup>). Also, Nigeria and Ghana have a combined import coverage of 59 % (ibid). This supports the declaration that West Africa's intra trade is low and the region has limited products it trades in both internally and externally. It also demonstrates that West Africa trades more with other parts of the world than amongst itself. Dr Gebe made a comparison between the EU and ECOWAS. In his illustration, the EU is a group of well-knitted, industrialized and advanced countries while ECOWAS is a grouping of poor, developing, though resource-rich countries. On this premise, he argued that it is easier for well-integrated, industrialized countries with heightened intra trade to attain a common currency. For lack of such knitted integration, factors of production are immobile in the region while internationally mobile.

### **3.3.2 The infrastructural deficit in West Africa**

The most important element of integration is infrastructure. Businesses must see the advantage of transcending the borders to interact with other countries in the region. Questions of whether there exist good transport and communication systems, manufacturing, and energy systems to support the activities of the businesses in the region are key. Businesses would move premised on the availability of the above-mentioned factors. These are some indices that can and would facilitate trade amongst member states. West Africa unfortunately, as recorded by Davies (2016) and Vickers (2017), falls short in this regard. Dr Gebe cited+ the road network in the capital cities of

Member countries as an example. The capital cities of the Member States are not in good enough shape to draw in the desired investors. Majority of the roads in Africa are not pliable (Michel, 2004).

Furthermore, Kayizzi-Mugerwa et al sustained this argument and continued that transport is cheaper between Africa and other continents than within Africa (2014). Dr Cudjoe's argument lay in tandem with Kayizzi-Mugerwa et al 2014 from the perspective of goods mobility. In his submission, the state of transport and communication systems in West Africa cannot support the movement of goods in the region resulting in low intra trade. Cristo Monagas et al (2015) agreed with the above sources highlighting the basic nature of transport and communication as a barrier to integration.

Finally, manufacturing as recorded by Willem te Velde (2019), remains critical in Africa. Extensive studies by Ramirez and Esfahani (2000) show that Africa's annual growth rate would be 1.3% higher if it had benefited from growth rates like that of East Asia in the 1980s and 1990s in the area of power generation infrastructure and telecommunications. A later study conducted in Latin America confirmed that inadequate investment in infrastructure tarried long term growth levels by 1-3%. (Easterly and Servén, 2003). In the last two decades, the increased globalization and intensified competition in world trade have resulted not only from the liberalization of trade policies in many countries, but also from major advances in communication, transportation and storage technologies. Infrastructure is therefore needed to supply the demand a wider export market brings.

### **3.3.3 Low Labour mobility**

Labour must be able to move across the region. OCA theory implies that if there is unemployment in one part of the region, labour should be able to move to the other part where there is work. If this is not possible, it would lead to disequilibrium. Unfortunately, West Africa's Protocol on Free Movement of Persons and Rights of establishment is not in tandem with the different national laws. This coupled with language and cultural barriers serve as an automatic barrier to movement. Moreover, Article 55 of the Revised Treaty which enjoins the Member States to abolish the obstacles to the movement of people, goods and capital, is practically ineffective (E. Cudjoe, Personal Communication, July 15, 2019).

Also, the cumbersome custom procedures resulting from disparities in custom structures hinder regional trade integration and serves a deterrence to movement blocking the chances of cross-border investments hence rendering taking up residency in another country an arduous task (Cristo Monagas et al, 2015). Labour movement is vital to integration if not the region would be faced with a situation similar to Brexit in Europe as Krugman clearly stated that the EU did not meet the criterion of labour mobility serving as a prerequisite to congeal the Eurozone as an optimum currency area ( Krugman,2012 ). Movement, Dr Cudjoe underlined, is a necessary condition to ensure the viability of the currency. The currency can indeed stimulate movement but the arrangements for the movement must previously be in place.

### **3.3.4 Lack of skilled resource and internal capacity for expansion**

In the submissions of Dr Cudjoe, Dr Gebe, Mr Nazar and (Masson and Milkiewicz, 2003), it was noted that the human resource capacity of ECOWAS was unskilled and highly unable to push the

integration agenda. West Africa and Africa as a whole, import infrastructure in the form of skilled labour and machinery from other parts of the world with increasing alliances with China in recent times. Also, differences in educational systems make it difficult for people to move as their qualifications and skill set do not meet the requirements of the job available. WAMA's director's report 2017 also raises the issue of a deficiency with regards to connoisseurs and staff with technical skills to carry out its duties. Inferring from this declaration, it can be concluded that some key organisations targeted to spearhead integration in the sub-region are human resource deficient.

### **3.3.5 Homogeneity of production and consumption**

West Africa is a landscape of homogeneous, primary resource-rich countries that possess weak production base. The sub-region is endowed with an abundance of heterogeneous primary products largely agricultural; the majority of which are exported in their raw state. Member States also depend largely on these primary exports (Amadu & Omotosho, 2011). The homogeneity of West Africa's production base and dependence on primary exports makes it susceptible to shocks from the global economy that have a great effect on the domestic economies. The area, therefore, does not have the 'insulation' diversification would produce. Dr Gebe also contributed that the lack of value-added production would not make the currency beneficial to the region as (i) there would be no real exchange in the trade and (ii) the shocks experienced in the global market would not change.

### **3.3.6 The challenge of Macroeconomic convergence**

Dr Cudjoe, Dr Gebe, Mr Obeng Darko and Mr Nazar all agreed that for monetary integration to be a successful venture, macroeconomic fundamentals and policies must align with each other. Dr

Cudjoe supported this argument by furthering the stance that convergence did not mean equality but being at par or meeting a specified threshold. It is for these reasons that countries are guided by the convergence criteria which serves as a form of assessment. The criteria were put in place to help the region attain internal and external balance increasing the resilience of the currency region to shocks. Member States regrettably are not meeting the expected targets at the desired pace. Below, the compliance of Member States to the convergence criteria is highlighted in two phases; (i) performance in the WAMZ region for the period 2009-2014 and (ii) performance under the revised roadmap.

### 3.3.6.1 WAMZ (2009-2014), before the revision of roadmap

Status of compliance of member countries of the WAMZ with the Primary and secondary convergence criteria from 2009 to 2014.

### 3.3.6.2 Average annual inflation rate: lower than 10%

**Table 3. 2: Average Annual Inflation Rate: lower than 10% (figures captured in the table below are in percentages %)**

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	5.4	5.8	4.4	4.9	5.6	6.9
<b>Sierra Leone</b>	12.2	17.8	16.9	11.4	8.2	7.9
<b>Ghana</b>	15.98	8.6	8.6	8.8	13.5	17
<b>Liberia</b>	9.7	6.6	11.5	7.7	8.5	7.7
<b>Nigeria</b>	14	11.8	10.3	12	8	8
<b>Guinea</b>	7.9	20.8	19	12.8	10.5	9

Source: (WAMI Annual reports, various years),

Member States were required to attain a single digit as a percentage of inflation. As is evident from Table 3.2, there have been fluctuations in the achievement of this criterion. However, Gambia was consistent in attaining a single-digit inflation rate during the period, Ghana met the target in three consecutive years (2010-2012), Guinea maintained single digit in 2013 and 2014, Liberia attained two sets of consecutive years (2008-2010 and 2012- 2014), and Nigeria and Sierra Leone attained this criterion in 2013 and 2014. Since 2012, the number of countries meeting this criterion has grown from 3 to 4 the next year (2013), and 5 the following year (2014).

Igue, et al. (2018) explained this performance as a result of internal and external factors. Domestically, West Africa experienced an increase in demand resulting from “changing tastes and preferences of the populace” and supply-side constraints such as “administered prices of the likes of petroleum products, utilities and infrastructural bottlenecks”. Besides, the West African region also depends largely on imports of manufactured goods, raw materials and semi-finished products. This reliance greatly affected the region due to the rise in global energy and food prices, increase in local prices resulting from exchange rate pass-through and significant depreciation West African countries experienced (WAMI Annual report, 2012; Igue et al, 2018).

**3.3.6.3 The budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3%**

**Table 3. 3: Budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3% (figures captured in the table below are in percentages %)**

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	7.2	6.7	9	13.5	11	12.5
<b>Sierra Leone</b>	8.6	10.6	10	8.1	4.1	7.7
<b>Ghana</b>	-7	-8.2	-3	-7.4	-8.1	-7.1
<b>Liberia</b>	2	-4.9	2.6	-1.8	1.1	-2.1
<b>Nigeria</b>	-3.3	3.1	1.1	-1.4	-1.4	-0.9
<b>Guinea</b>	-6.8	-14.4	-4.6	-1.4	-7.1	5.1

Source: (WAMI Annual Report, various years)

This expectation would materialize only if fiscal operations of member countries do not experience a deficit of 3%. Evident from Table 3.3, Member states failed immensely at fulfilling this criterion. Liberia, within the period under study, has fulfilled the criteria to the letter. Nigeria came close with deviations in the years 2009 and 2010. Besides these years, they met the criteria in consequent years. According to Dr Gebe and Dr Cudjoe, difficulty in fulfilling this criterion has been attributed to shortages in revenue projections and over-dependence on primary products leading to the increasing need to meet budgetary expenditures. Nigeria has met the target because of the Fiscal Act which enjoins the country to achieve a budget deficit lower than or equal to 3% yearly.

**3.3.6.3 Central Bank Financing of Budget Deficit: lower than or equal to 10% of previous year's revenue**

**Table 3. 4: Central Bank Financing of Budget Deficit: lower than or equal to 10% of previous year's revenue (figures captured in the table below are in percentages %)**

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	0	0	0	0	48.3	33.3
<b>Sierra Leone</b>	21.2	108.4	1.1	0	1.7	8.1
<b>Ghana</b>	0	0	28.3	9.4	9.2	10.9
<b>Sierra Leone</b>	21.2	108.4	1.1	0	1.7	8.1
<b>Liberia</b>	0	0	0	0	0	0
<b>Nigeria</b>	0	0	0	0	0	0
<b>Guinea</b>	40.1	82.9	-17	-51.8	-24.5	-12

Source: (WAMI Annual Report, various years)

From Table 3.4, Gambia showed steady convergence till 2013 where it deviated. Ghana has consistently met this criterion since 2012 with an increase of 0.9 in 2014. Guinea, on the contrary, deviated from the target. Liberia performed exceedingly well during the period. Nigeria fulfilled this criterion throughout the period and Sierra Leone experienced fluctuations in the first two years, meeting the target consistently from 2011-2014.

**3.3.6.4 Gross external reserves: higher or equal to three (3) months of imports cover**

**Table 3. 5: Gross external reserves: higher or equal to three (3) months of imports cover**

Country/Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	4.7	6.8	6.1	4.8	4.6	3.7
<b>Ghana</b>	4.4	4.8	3.2	3.4	3.6	4.2
<b>Guinea</b>	2.2	1.9	4.3	3	3.5	3.2
<b>Liberia</b>	3.6	4.3	3.3	2.8	2.8	2.5
<b>Nigeria</b>	16.6	7.9	6.3	8.5	8.9	6.5
<b>Sierra Leone</b>	6.2	5	2.5	3.4	3.2	3.6

Source: (WAMI Annual Reports, various years)

Fulfilling this criterion requires Member Countries to maintain international reserves capable of financing three months of imports. This criterion is extremely necessary as in the case of the collapse of the Eco, the reserves would serve as a shield for the economies as it can be converted back to their old currencies. WAMI Annual report (2012, 2013, and 2014) record that the performance of Member States with regards to this criterion has been good.

**Table 3. 6: Total number of primary convergence criteria met from 2009-2014 on a country basis**

Country/Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	3	2	3	3	2	2
<b>Ghana</b>	2	3	4	3	2	2
<b>Guinea</b>	1	0	2	2	1	2
<b>Liberia</b>	4	3	3	3	3	3
<b>Nigeria</b>	3	2	3	3	4	4
<b>Sierra Leone</b>	1	1	1	2	3	3

Source: (WAMI Annual reports, various years)

With the figures observable in Table 3.6, with the exception of Nigeria, which maintained complete convergence with all the criteria consistently in 2013 and 2014, all other States have not met all the criteria on a successive basis. However, Liberia has consistently for a period of 5 years (2010-2014) met three out of the four criteria. All other countries in the region met the criteria intermittently.

### 3.3.6.5 Nominal exchange rate: stable (+/- 10%)

This criterion stipulates that the exchange rate of a local currency to the US dollar should be less than or equal to 10% (Igue et al, 2018). Unfortunately, meeting this criterion consistently has proven a challenge with the prevalence of external shocks, unfavourable terms of trade and global financial crisis between 2007 and 2009 (WAMI 2012, 2015)

**Table 3. 7: Nominal exchange rate: stable (+/- 10%)**

Country/Year	2010	2011	2012	2013	2014
<b>The Gambia</b>	-9	-2.2	8.7	18.3	31.6
<b>Ghana</b>	3.3	4.95	17.53	14.55	31.25
<b>Guinea</b>	19.1	14.2	-1.7	0.5	-3.1
<b>Liberia</b>	0.4	0.7	1.8	12.1	0
<b>Nigeria</b>	9.9	14.2	12.9	12.8	7.9
<b>Sierra Leone</b>	8.2	4.1	-1	0.5	12

Source: (WAMI Annual Reports, various years)

**3.3.6.6 Public debt to GDP ratio: less than or equal to 70%**

**Table 3. 8: Public debt to GDP ratio: less than or equal to 70%**

Country/Year	2010	2011	2012	2013	2014
<b>The Gambia</b>	58.1	67.4	75.5	85.6	93.8
<b>Ghana</b>	38.2	39.3	46.7	55.2	64.5
<b>Guinea</b>	88	80	39.5	37.5	39.9
<b>Liberia</b>	42	32.4	34.1	30.5	37.9
<b>Nigeria</b>	15.4	17.5	19.4	10.1	11
<b>Sierra Leone</b>	37.3	38	33.2	28.4	35.2

Source: (WAMI Annual Reports, various years)

The criteria according to projections are to be met consistently to ensure that the currency can be established. Till date, this remains one of the greatest challenges of macroeconomic convergence.

**3.4 Convergence criteria under the revised roadmap**

After the rationalization of the convergence criteria in the revised roadmap in 2015 to six, UEMOA countries were required under the single-track approach to converge with the WAMZ countries under a single-track approach pending the 2020 deadline. Also, under the new roadmap, the multilateral surveillance system monitors Member States compliance every six months. This change was effected in 2016. The table below presents the performance of ECOWAS Member States from 2014 to 2017. This is because the macroeconomic convergence report for 2018 was prepared during a retreat in Accra from 6th -11th May 2019 and was not accessible. (Bank of Ghana, 2019c)

**Table 3. 9: Number of primary criteria met per country**

Country/ Period	2014	2015	2016 (1 <sup>st</sup> half)	2016	2017 (1 <sup>st</sup> half)	2017
<b>WAMZ</b>						
<b>The Gambia</b>	2	1	1	1	2	2
<b>Sierra Leone</b>	3	2	2	1	1	1
<b>Ghana</b>	1	2	2	1	2	2
<b>Liberia</b>	4	3	4	4	3	3
<b>Nigeria</b>	4	4	3	3	3	3
<b>Guinea</b>	3	1	3	3	3	3
<b>UEMOA</b>						
<b>Cote D'Ivoire</b>	4	4	4	3	4	3
<b>Benin</b>	4	3	3	3	3	3
<b>Burkina Faso</b>	4	4	4	3	3	3
<b>Mali</b>	4	4	4	3	4	4
<b>Niger</b>	3	3	3	3	3	3
<b>Guinea-Bissau</b>	4	4	4	3	4	4
<b>Senegal</b>	3	3	3	3	3	3
<b>Togo</b>	3	3	3	3	3	3
<b>Cabo Verde</b>	3	3	3	3	4	3

Source: National Authorities, WAMA

From Table 3.9, it can be deduced that generally during the period Member States tried to meet the criteria, but the performance was better in the UEMOA region than in the WAMZ affirming a better level of stability in the UEMOA region (presumably by the support of the Euro). The 2016 WAMI Annual Report noted that a decline in 2015 in the global World economic growth and its sluggish growth in 2016, affected the sub-region and influenced countries' performance concerning the exchange rate target (WAMI, 2016).

**Table 3. 10: Total number of convergence criteria met on the country basis (All Member States)**

Country/ Period	2014	2015	2016 (1 <sup>st</sup> half)	2016	2017 ( 1 <sup>st</sup> half)
<b>Benin</b>	6	5	5	5	5
<b>Burkina Faso</b>	6	6	6	5	5
<b>Cabo Verde</b>	4	4	4	4	5
<b>Cote D'Ivoire</b>	6	6	6	5	6
<b>The Gambia</b>	2	2	2	2	3
<b>Ghana</b>	2	2	4	2	2
<b>Guinea</b>	5	3	4	4	5
<b>Guinea – Bissau</b>	6	6	6	5	6
<b>Liberia</b>	6	5	6	6	4
<b>Mali</b>	6	6	6	5	6
<b>Niger</b>	5	5	5	5	5
<b>Nigeria</b>	6	5	4	4	5
<b>Senegal</b>	5	5	5	5	5
<b>Sierra Leone</b>	5	4	3	2	2
<b>Togo</b>	5	4	4	4	4
<b>No. of countries that met all the convergence criteria</b>	7	4	5	1	3

Source: Bank of Ghana, 2019a

Clearly explained in Table 3.10, out of several countries, the number of countries that have met all the criteria are not up to half of the countries in the region. It is still recurrent that the countries in the UEMOA zone performed better than the WAMZ countries. This questions the region's optimality as a currency area. Another challenge of the convergence criteria is the consistency with which countries are supposed to meet it. The idea of consistency is to enable some level of stability.

### **3.4.1 Fiscal Indiscipline**

West Africa is saddled with corruption, misappropriation of funds and borrowing. These Dr Gebe and Dr Cudjoe furthered, are putting a strain on the economies. These behaviours of Member States make the criterion of fiscal integration almost impossible to achieve. Corruption and borrowing, they reiterated as well as dependence on Central Banks as the main source of funding for projects, adversely affect a country's finances. It would, therefore, be difficult to ask countries to send excess revenue to poorer areas in the region. Besides, single currencies are sustained on discipline; fiscal, monetary and institutional. National institutions in West Africa are not very effective at enforcing rules on policy and regulation. This questions the ability of ECOWAS, as a supranational body, to effectively do same.

### **3.4.2 Diversity in nature of countries in the sub-region**

Dr Gebe highlighted the diversity of ECOWAS countries (Lusophone, Anglophone and Francophone) as a challenge to the attainment of the common currency. Mr Nazar adds that countries in the region had different colonial masters. This, in his point of view, automatically presents different worldviews, thought patterns and ways of doing things. These countries now have to find a point of agreement (convergence) and that has been one of the greatest challenges of economic integration and the common currency idea.

Additionally, Dr Gebe maintained that bridging the gap between the different types of economies remains a difficulty as development levels are varied in the sub-region. He cited the example of Nigeria, which is quite developed with a large population, endowed with a plethora of resources

and a huge market as against Mali, Niger, Liberia and Sierra Leone which he classified as countries with low development.

Dr Cudjoe also mentioned that at the inception of the common currency idea, Ghana was democratic in culture, other countries like Cote d'Ivoire and Sierra Leone were transitioning from stable to chaotic (military experimentations/coup d'état), there was a rise in terrorism and militancy; all of which were adversely affecting the States. These different political inclinations affected the behaviour of Member States in the integration agenda.

Another contributory factor is the variance in colonial experiences which have influenced the exposure and worldview of the countries. This is evident in the need for harmonization as policies across the 15 member union are dissimilar as the Anglophones practice British system (for example; governance, banking, monetary policy) and the Francophone countries, the French system. This amidst other reasons did not set a good foundation for the idea to thrive.

### **3.4.3 Political Will**

At its inception, the Eco was more politically motivated than economically. In Dr Gebe's opinion, the introduction of convergence criteria signified a level of political will to the agenda. On the contrary, political leaders, with time, have not been overly keen on the idea of a common currency. Miss Sagoe (a Foreign Service Officer) averred that political will was key to the realization of the single currency. She cited the current president of Ghana in support of her argument. His Excellency Nana Addo Dankwa Akuffo Addo expressed his commitment to the idea and was doing

his possible best to have this idea see the light of day by ensuring institutions function. This cannot be generalized for all other countries in the sub-region.

Dr Gebe cited the example of the ECOWAS identity cards being instituted in Ghana. The real question he furthered is, is the same being done elsewhere in the sub-region? He continued that the leaders of countries are political figures and they change hence the probability of having political elites that would constantly find ECOWAS' goals as important and in tandem with their national interest is low. On another level, the West African States also have diverse commitments fuelled by the multiplicity of RECs in Africa of which they are members. This reduces the level of commitment of some States to ECOWAS.

ECOWAS has different protocols and conventions in varied areas such as telecommunications, education, industrialization, trade, customs, and free movement amongst others. The problem lies not in the existence of the protocols and conventions but the ratification and implementation stages as well as the commitment of member countries to these protocols and conventions (Oppong, 2011). Usually, for the protocols or conventions to thrive, some local laws will have to be collapsed hence the hesitancy on the part of member countries to implement them. According to Mr Nazar and (Oppong, 2011), this is one of the major stumbling blocks to integration in the sub-region. Senegal, as a case study, generates the majority of its revenue from taxes. Free trade is, therefore, an indirect crippling of the Senegalese economy (Michel, 2004). Mr Obeng Darko and Mr Nazar shared that funding was one of the greatest problems of the revised roadmap. As Nigeria had not paid its contribution to the Special Fund, many activities and programmes were stalled.

### **3.5 Conclusion**

This chapter discussed the prospects of a common currency for the ECOWAS sub-region, the progress ECOWAS had made towards its attainment and some challenges that still subsist in spite of the progress.

## CHAPTER FOUR

### SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

#### 4.0 Introduction

The study sought to find out if the Eco would be a catalyst for economic integration in the sub-region by running West Africa through the theory of optimum currency area test in a bid to find out if the sub-region was poised for the introduction of a common currency. The study also sought to highlight progress made towards achieving a common currency and the impediments facing the process. The chapter, serving as the postscript of the study, collates the findings of the study, discusses other issues prevalent in the region affecting the integration process, highlights emerging issues on the topic of a common currency in West Africa , concludes and proffers recommendations that would enable the region to attain economic and monetary integration.

#### 4.1 Summary of Findings

A common currency (the Eco) would intensify economic integration in West Africa by addressing the problem of multiplicity of currencies and exchange rate dilemma which are hindering trade. By so doing, there would be the promotion of trade, creation of a larger market, facilitation of free movement of factors of production, enhancement of competitiveness, economies of scale and lowered transaction costs, collective pooling of resources for essential infrastructural development which would dovetail into improved standard of living of the West African citizenry.

The Economic Community of West African States has been in a fervent quest for a common currency since the beginning of the new millennium. This is resultant of empirical hypotheses that

have put forth the argument that monetary integration can spur on economic integration. The double-track approach, adopted in the year 2000, targeted at establishing a second monetary zone failed hence the adoption of a single track in 2009 with a revised roadmap of thirty-nine activities to be carried out under ten programmes targeting specific areas of economic, monetary and financial integration, all in lieu of speeding up the attainment of the common currency.

Notably, ECOWAS has chalked some level of progress in the field of harmonization of statistics and data, implementation of the ETLIS in the Member States, economic policy coordination, payment systems, capital market integration and financial integration under the revised roadmap towards achieving the Eco. Also, the performance with regards to the convergence criteria under the single track approach is comparatively better than under the double track. A considerable improvement evident is the change in the structure of production specifically in the WAMZ. The tertiary (services) sector is gradually dominating the primary sector. The tertiary sector arguably is already diversified as it cuts across borders posing ECOWAS for the introduction of the Eco.

However, the Member States are fraught with challenges such as infrastructural deficit, low labour mobility, lack of skilled resources and internal capacity for expansion, similarity of production and consumption and lack of political commitment of the leadership of member countries. Other micro-level challenges (such as borrowing, overdependence on Central Banks for funding of public projects and indiscipline) are contributory factors hindering the attainment of macroeconomic convergence criteria albeit the rationalization of the convergence criteria under the new roadmap to six. Member States who have also met all the convergence criteria so far are in the UEMOA zone and this performance is adjudged a result of support from the Euro.

#### **4.1.1 Other issues prevalent in the sub-region**

To begin, issues prevalent in the sub-region such as political instability and Ebola outbreak in Sierra Leone, have accounted for some countries' inability to meet the convergence criteria. Since the new millennium, there have been political tensions all across the sub-region; in Guinea, Guinea-Bissau, Togo, Cote D'Ivoire, Niger, Mali, Sierra Leone, Liberia, Nigeria (Boko Haram) and Burkina Faso in 2019 was faced with terrorist threats. In recent times the region was hit with an outbreak of Ebola in Sierra Leone to be precise which spilt over into neighbouring countries with the movement of Sierra Leoneans trying to flee the epidemic. This greatly crippled the Sierra Leonean economy as a large number of the workforce was lost and economic activities came to a standstill with the country's focus on combatting the epidemic. It is amidst these, that countries are required to meet the convergence criteria per annum.

#### **4.1.2 Emerging issues of debate with regards to the Eco**

An emerging issue is rising Nationalism. In recent times, national interests and foreign policy are taking precedence over regional interests. The much needed political zeal required to drive the regional agenda at the level of national policy advancement has been lacking. Liberia, for instance, required all legal West African migrants to undergo a process of (re) registration, while illegal migrants were deported. On the other hand, Nigeria, the West African "hegemon", has exhibited characteristics of putting its national interest first. When the implementation of the CET was effected in 2015, businessmen in Nigeria rose against the idea. The country sided with its nationals and hesitated in its implementation. In another example, Nigeria was to contribute USD 3,000,000 to the Special Fund under the new roadmap. As of 2019, it was still yet to pay up while Ghana and BCEAO have paid.

Also, in accordance with the programme ten on the revised roadmap which would define and ascertain the countries which would pioneer this agenda, it was decided that whichever two countries are ready can start. However, the study finds this problematic for the following reasons. A common currency that becomes the unit for the currency region must demonstrate certain characteristics; it must be stable, originate from a country with very low inflation and have good fiscal discipline, monetary control and authority. These characteristics ideally should exist over a period of thirty to a hundred years. If any country in ECOWAS qualifies by these criteria, as Germany did for the EU, then it would be possible for West Africa to implement a common currency. This creates an issue of a “support” currency/ economy. Nigeria, the largest economy in the region, is not wholeheartedly committed to the idea as such it is almost impossible that two weak economies can pioneer the use of the Eco.

Moreover, the problem for ECOWAS has never been the desire for a common currency but the feasibility and whether or not the economic fundamentals are there to help in the attainment of a common currency. It is obvious that the sub-region desires a common currency and this is evident in the Community’s unrelenting drive to expedite the agenda. With the evident challenges, it is questionable if the currency would be sustainable.

Furthermore, the value of the Eco is very important for the maintenance and sustainability of the economic development in the sub-region. The joint economies of the membership must be strong enough to support the currency. If this is not the case, lack of production and inflation would set in and devalue the currency. The study found that, should the currency be implemented without considerations for a strong economy, in the next ten or twenty years, the currency was likely to

collapse. Currently, the majority of the West African economies do not qualify as ‘strong economies’ hence they cannot adequately support the Eco. In a sub-region that spends more importing manufactured, value-added goods and exports raw materials whose prices are later determined by buyers, it would be difficult to, of their own accord, determine the worth of their currency. It is only when a region has the capacity for the economic support base for production that it can determine the worth of its currency. Besides, ECOWAS would not be able to implement the currency without the support of strong economies like Nigeria, Cote d’Ivoire, and Ghana. These economies would have to shoulder the region in the pursuit of its integration agenda.

Worthy of note is the fact that ECOWAS protocols and conventions are not harmonized with national laws as such the protocols do not grant all citizens the same rights in every country. There are distinctions based on nationality as subjected to the national laws of the individual countries where they are being applied. All countries are also not at the same pace of implementation of ECOWAS protocols. This insecurity restricts the movement of people and businesses.

Finally, out of seven interviewees, five agreed with the available literature, on the premise of the challenges militating against the process of attaining a common currency that, the 2020 deadline proposed by ECOWAS would not be feasible as West Africa does not qualify as an optimum currency area despite the successes it has attained. Low-level intra trade coupled with strenuous customs procedures have led to low mobility of factors of production and low economic openness. The inability of countries to meet macroeconomic convergence as a result of problems from the micro-level (within the individual economies) and the presence of national interests conflicting with regional interests is stalling the integration agenda in West Africa. Taking into consideration

the level of economic integration in the sub-region, the Eco despite its ability to catalyse economic integration would not translate into an automatic boost for integration.

## **4.2 Conclusion**

The dream of the EMCP for a currency union in West Africa still remains unfulfilled. As espoused by Mundell, (1961), the currency is a unit of a country's sovereignty, and it is one of the most important costs of monetary integration. The pace of integration in West Africa is proof that the Member States of ECOWAS are not ready to cede the required level of sovereignty needed to push the integration agenda. Also, in spite of the perceived benefits, the current economic dispensation of Member States cannot support a common currency as the costs far outweigh the benefits. Regional integration is interconnectivity between two aspects; the political and economic hence if there exists a disconnection between the two, the integration agenda cannot be realized.

From the study, it was realized that ECOWAS stands to gain a lot from the introduction of the Eco. However, the sub-region by all indication is not an optimum currency area therefore, the 2020 launch date would be impossible. ECOWAS falls short of these requirements not because the theory is out of the reach of the sub-region but because the present approach applied is putting the cart before the horse. The Revised roadmap presents the region with integration in specified areas neglecting largely, the bedrock of the currency; economic integration. Critical attention to economic integration, in the long run, would spur on the need for a common currency in the sub-region. The currency is unfortunately not what West Africa needs at present. The focus of integration in the sub-region should be infrastructure, churning quality labour force and expertise

that can move around the region, deepening intra trade and the currency union would follow of natural consequence.

#### **4.3 Recommendations and Areas for Future Research**

The study using the findings as a backing, recommends the following measures for sub-regional integration.

- ❖ Member States should be cognizant of ECOWAS protocols, conventions and policies and incorporate them into national agenda and planning. For instance, if countries should imbibe the convergence criteria into planning and put in place policy measures and appropriate mechanisms, they would achieve the targets with consistency. For instance, Nigeria has steadily maintained the target on Fiscal Deficit as a result of the Fiscal Act which enjoins them to have a fiscal deficit of not more than 3% to GDP.
- ❖ ECOWAS should set achievable deadlines instead of resorting to fast track approaches. They should learn from Nigeria's push for a gradualist approach to integration.
- ❖ ECOWAS should help secure funding for infrastructure development across the region to help promote trade among member countries.
- ❖ ECOWAS should practice a bottom-up approach where the Member States would feel a part of decision making. This way, they would be extremely committed to the integration as the decisions. This study proposes intergovernmentalism as an approach to the decision-making process instead of supranational decision-making process practised.
- ❖ Bigger countries should shoulder the smaller ones in the spirit of integration. Integration in its beginning stages would create some costs for the larger economies however the larger economies such as Nigeria should help make the region a formidable one.

- ❖ ECOWAS should support the other regional bodies such as WAMI and WAMA in the execution of their duties to achieve the aim of a common currency in the region. For instance in the revised roadmap, programme 7 on promoting the integration of financial markets, phase 2 implementation has been delayed as WAMI does not have enough support from ECOWAS to accelerate the approval of the revised documents by the African Securities Regulators' Association of West Africa (WASRA).
- ❖ Countries should invest in production to upgrade their markets, not only in terms of manufacturing but also, value-added production to support the currency. Also, diversification can be planned at the ECOWAS level to enable all countries to benefit in their fields of specialization.
- ❖ Maintaining a Central Bank financing of Budget deficit lower than or equal to 10% of previous year's revenue is possible when there is less dependence on Central Banks for the financing of all public expenditures as such discipline in all spheres should be encouraged to help member countries achieve the convergence criteria targets.
- ❖ The populace in the Member States should be sensitized on ECOWAS's activities to create the needed awareness. For example, the ETLs is not highly patronized because the majority of ECOWAS's population are not aware of the Scheme as such they cannot benefit from it.
- ❖ Integration is a combination of two aspects; the economic and the political. The leadership of Member States must cede the needed sovereignty to aid the implementation of ECOWAS policies and projects.
- ❖ ECOWAS should consider more development regionalism efforts such as the WAPP, Abidjan –Lagos highway in varied areas such as agriculture, mining, manufacturing to

make the economic output more prolific and competitive to increase its contribution to global trade.

- ❖ The sub-regional body should tread cautiously and push the launch date at earliest to 2025, which would mark its 50<sup>th</sup> anniversary or later to enable the region to fortify the building blocks of its integration.
- ❖ The study recommends the UEMOA Zone as an area for future research. UEMOA has a Free Trade Area which is 0% internally but has an external tariff of 15% against the other countries in the region. The UEMOA bloc is safe economically, has heightened intra trade and enjoys financial stability as they are backed by the Euro. Also, despite the CFA zone being in existence for long, it is noticed that there is little convergence in the similarity of economic structure amongst members. Secondly, most of the shocks in the zone are country-specific, not region-specific with about half of the member countries being some of the poorest in the world. The inflation in UEMOA is relatively low as a result of the Euro as a strong anchor currency. The area is faced with difficulties such as low diversification, high exposure to external shocks, low level of physical and human capital as such they do not qualify as an optimum currency area. This, coupled with the colonial link to France questions the commitment of the CFA zone to the single currency. Hence, the study suggests that further research can be carried out in the UEMOA zone, to study likely effects of a breakaway from France would have on the region's integration.

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Personal Interview with Dr. Boni Yao Gebe - Lecturer, Legon Centre for International Affairs and Diplomacy (LECIAD), on 12<sup>th</sup> July, 2019.

Personal Interview with Dr. Emmanuel Cudjoe - Lecturer, Department of Economics, University of Ghana, on 15<sup>th</sup> July, 2019.

Personal Interview with Mr. Ernest Obeng Darko - Head, International Economic Policy Unit (IEPU), Economic Research and Forecasting Division (ERFD), Ministry of Finance, on 16<sup>th</sup> July, 2019.

Personal Interview with Mr. Philbert Johnson - Director, Africa Bureau, Ministry of Foreign Affairs and Regional Integration, on 9<sup>th</sup> July, 2019.

Personal Interview with Mr. Raymond Nazar - Deputy Head, International Economic Policy Unit (IEPU), Economic Research and Forecasting Division (ERFD), Ministry of Finance, on 19<sup>th</sup> & 26<sup>th</sup> July, 2019.

Personal Interview with Ms. Nana Ekuia Akuffo-Sagoe - Foreign Service Officer, Ministry of Foreign Affairs and Regional Integration, on 9<sup>th</sup> July, 2019.

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## APPENDICES

### APPENDIX A

#### Interview Guide

##### *Section 1 (the ECO)*

- What are the efforts the WAMZ countries have put in place since 2000 to the achievement of the Eco?
- What are the challenges facing the implementation of ECO? What are the root causes of these challenges?
- In your opinion does the Eco have complete political backing to aid its realization?
- Why are WAMZ countries unable to meet the convergence criteria?
- Is the convergence criteria the most adequate unit of measurement for the realization of the eco?
- What is the nature and magnitude of shocks of the WAMZ countries?
- Considering the level of economic integration in West Africa, would the currency be a catalyst? If it would, in what way(s)?
- The Eco currency for the West African sub-region, weighed against its advantages, is desirable but, in your opinion, is it the ultimate?
- What are the prospects for a currency union in West Africa?

##### *Section 2 (Progress towards achieving the eco)*

- The Eco currency has missed its launched date three times already. Its next proposed launch date is 2020; between 2009 and 2020 are there any new developments towards the realization of the Eco? If yes, please specify
- Apart from the approach, what is unique about the revised roadmap? Is it certain to give the desired results?

##### *Section 3 (Economic integration in West Africa and how the currency would boost or otherwise economic integration in the sub-region)*

- What is the status of economic integration in the sub-region?
- What are the measures ECOWAS as a body and its member countries, are putting in place to boost economic integration in West Africa?
- Is West African economic integration facing any challenges? If yes, please specify.

- Can economic integration be increased without the currency?
- What are the prospects for economic integration, should the Eco be launched in 2020?

**APPENDIX B**

**Tables**

*Table 2.1 Compliance of WAMZ Member States to Convergence Criteria*

Country/ Year	2001	2002	2003	2004	2005	2006	2007	2008 1 <sup>st</sup> half	2008 2 <sup>nd</sup> half	2009 1 <sup>st</sup> half	2009 2 <sup>nd</sup> half
The Gambia	2	0	1	4	4	6	3	5	3	4	3
Sierra Leone	3	3	0	1	1	0	2	2	1	2	2
Ghana	1	0	2	3	3	3	4	2	2	2	3
Liberia	4	4	3	2	3	4	4	3	4	4	4
Nigeria	4	4	4	5	5	5	6	5	5	6	6
Guinea	5	3	1	1	3	2	4	4	4	7	3
Cabo Verde	3	3	4	4	4	4	4	4	3	2	4

Source: WAMI 2009,2010

**Table 3.1 Status of Implementation of the Revised Roadmap for the ECOWAS Single Currency Programme**

<b>PROGRAMME</b>	<b>STATUS OF IMPLEMENTATION</b>
<b>11. Coordination of economic policies</b>	Progress in (i) the development of a Communication Strategy for the single currency programme (ii) harmonization of Public Finance framework Delay in (iii) harmonization of Government finance statistics
<b>12. Macroeconomic convergence and stability</b>	Progress on the strengthening of multilateral surveillance. Multilateral surveillance is done

	<p>every 6 months to check the Member States level of convergence.</p> <p>Delay in the establishment of the Community Solidarity and Stabilization Fund</p>
<b>13. Consolidation of ECOWAS Common Market</b>	Call for full implementation of ETLS and all Member States are implementing the Common External Tariff (CET)
<b>14. Harmonization of Statistical standards and practices</b>	Delays due to lack of funding
<b>15. Harmonization of exchange rate policy framework</b>	In 2019, the Convergence council accepted a flexible exchange rate regime
<b>16. Harmonization of a monetary policy framework</b>	Inconclusive as the Working Group (team of Experts) created has not reached a consensus in recommending the appropriate frameworks
<b>17. Financial Integration</b>	<p>(i)Delay in implementation of phase 2 of the Africa Capital Market Integration Programme(WACMIP)</p> <p>(ii)Implementation of Insurance Programme pending due to lack of funding</p>
<b>18. Interconnection of payment systems</b>	WAMA, WAMI & ECOWAS Commission is in collaborative works to accelerate implementation in 2019.
<b>19. Creation of the ECOWAS Central Bank</b>	Activities such as the establishment of the ECOWAS Monetary Institute, proposal and adoption of the name of the ECOWAS Central Bank are inconclusive. Ghana has been designated to host the ECOWAS Central Bank.
<b>20. Selection of qualified countries and Launch of the ECOWAS Monetary Union</b>	(i)Eco has been decided as the name for the currency by Authority of Heads of States and

	<p>Government June 30<sup>th</sup>, 2019 at the 55<sup>th</sup> Ordinary Session.</p> <p>(ii) Determination of unit of Account based on the weight of the eight regional currencies is pending.</p> <p>(iii) Whichever two countries are ready would start the monetary union and the others would join as and when ready.</p>
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Source: Author's construction

Table 3.2: Average Annual Inflation Rate: lower than 10% (figures captured in the table below are in percentages %)

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	5.4	5.8	4.4	4.9	5.6	6.9
<b>Sierra Leone</b>	12.2	17.8	16.9	11.4	8.2	7.9
<b>Ghana</b>	15.98	8.6	8.6	8.8	13.5	17
<b>Liberia</b>	9.7	6.6	11.5	7.7	8.5	7.7
<b>Nigeria</b>	14	11.8	10.3	12	8	8
<b>Guinea</b>	7.9	20.8	19	12.8	10.5	9

Source: (WAMI Annual reports, various years),

Table 3.3: Budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3% (figures captured in the table below are in percentages %)

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	7.2	6.7	9	13.5	11	12.5
<b>Sierra Leone</b>	8.6	10.6	10	8.1	4.1	7.7
<b>Ghana</b>	-7	-8.2	-3	-7.4	-8.1	-7.1
<b>Liberia</b>	2	-4.9	2.6	-1.8	1.1	-2.1
<b>Nigeria</b>	-3.3	3.1	1.1	-1.4	-1.4	-0.9
<b>Guinea</b>	-6.8	-14.4	-4.6	-1.4	-7.1	5.1

Source: (WAMI Annual Report, various years)

Table 3.4: *Central Bank Financing of Budget Deficit: lower than or equal to 10% of previous year's revenue (figures captured in the table below are in percentages %)*

Country/ Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	0	0	0	0	48.3	33.3
<b>Sierra Leone</b>	21.2	108.4	1.1	0	1.7	8.1
<b>Ghana</b>	0	0	28.3	9.4	9.2	10.9
<b>Sierra Leone</b>	21.2	108.4	1.1	0	1.7	8.1
<b>Liberia</b>	0	0	0	0	0	0
<b>Nigeria</b>	0	0	0	0	0	0
<b>Guinea</b>	40.1	82.9	-17	-51.8	-24.5	-12

Source: (WAMI Annual Report, various years)

Table 3.5: *Gross external reserves: higher or equal to three (3) months of imports cover*

Country/Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	4.7	6.8	6.1	4.8	4.6	3.7
<b>Ghana</b>	4.4	4.8	3.2	3.4	3.6	4.2
<b>Guinea</b>	2.2	1.9	4.3	3	3.5	3.2
<b>Liberia</b>	3.6	4.3	3.3	2.8	2.8	2.5
<b>Nigeria</b>	16.6	7.9	6.3	8.5	8.9	6.5
<b>Sierra Leone</b>	6.2	5	2.5	3.4	3.2	3.6

Source: (WAMI Annual Reports, various years)

Table 3.6: *Total number of primary convergence criteria met from 2009-2014 on a country basis*

Country/Year	2009	2010	2011	2012	2013	2014
<b>The Gambia</b>	3	2	3	3	2	2
<b>Ghana</b>	2	3	4	3	2	2
<b>Guinea</b>	1	0	2	2	1	2
<b>Liberia</b>	4	3	3	3	3	3
<b>Nigeria</b>	3	2	3	3	4	4
<b>Sierra Leone</b>	1	1	1	2	3	3

Source: (WAMI Annual reports, various years)

Table 3.7: Nominal exchange rate: stable (+/- 10%)

Country/Year	2010	2011	2012	2013	2014
<b>The Gambia</b>	-9	-2.2	8.7	18.3	31.6
<b>Ghana</b>	3.3	4.95	17.53	14.55	31.25
<b>Guinea</b>	19.1	14.2	-1.7	0.5	-3.1
<b>Liberia</b>	0.4	0.7	1.8	12.1	0
<b>Nigeria</b>	9.9	14.2	12.9	12.8	7.9
<b>Sierra Leone</b>	8.2	4.1	-1	0.5	12

Source: (WAMI Annual Reports, various years)

Table 3.8: Public debt to GDP ratio: less than or equal to 70%

Country/Year	2010	2011	2012	2013	2014
<b>The Gambia</b>	58.1	67.4	75.5	85.6	93.8
<b>Ghana</b>	38.2	39.3	46.7	55.2	64.5
<b>Guinea</b>	88	80	39.5	37.5	39.9
<b>Liberia</b>	42	32.4	34.1	30.5	37.9
<b>Nigeria</b>	15.4	17.5	19.4	10.1	11
<b>Sierra Leone</b>	37.3	38	33.2	28.4	35.2

Source: (WAMI Annual Reports, various years)

Table 3.9: Number of primary criteria met per country

Country/ Period	2014	2015	2016 (1 <sup>st</sup> half)	2016	2017 (1 <sup>ST</sup> half)	2017
<b>WAMZ</b>						
<b>The Gambia</b>	2	1	1	1	2	2
<b>Sierra Leone</b>	3	2	2	1	1	1
<b>Ghana</b>	1	2	2	1	2	2
<b>Liberia</b>	4	3	4	4	3	3
<b>Nigeria</b>	4	4	3	3	3	3
<b>Guinea</b>	3	1	3	3	3	3
<b>UEMOA</b>						
<b>Cote D'Ivoire</b>	4	4	4	3	4	3
<b>Benin</b>	4	3	3	3	3	3
<b>Burkina Faso</b>	4	4	4	3	3	3
<b>Mali</b>	4	4	4	3	4	4
<b>Niger</b>	3	3	3	3	3	3
<b>Guinea-Bissau</b>	4	4	4	3	4	4

<b>Senegal</b>	3	3	3	3	3	3
<b>Togo</b>	3	3	3	3	3	3
<b>Cabo Verde</b>	3	3	3	3	4	3

Source: National Authorities, WAMA

Table 3.10: *Total number of convergence criteria met on the country basis (All Member States)*

<b>Country/ Period</b>	<b>2014</b>	<b>2015</b>	<b>2016 (1<sup>st</sup> half)</b>	<b>2016</b>	<b>2017 ( 1<sup>st</sup> half)</b>
<b>Benin</b>	6	5	5	5	5
<b>Burkina Faso</b>	6	6	6	5	5
<b>Cabo Verde</b>	4	4	4	4	5
<b>Cote D'Ivoire</b>	6	6	6	5	6
<b>The Gambia</b>	2	2	2	2	3
<b>Ghana</b>	2	2	4	2	2
<b>Guinea</b>	5	3	4	4	5
<b>Guinea – Bissau</b>	6	6	6	5	6
<b>Liberia</b>	6	5	6	6	4
<b>Mali</b>	6	6	6	5	6
<b>Niger</b>	5	5	5	5	5
<b>Nigeria</b>	6	5	4	4	5
<b>Senegal</b>	5	5	5	5	5
<b>Sierra Leone</b>	5	4	3	2	2
<b>Togo</b>	5	4	4	4	4
<b>No. of countries that met all the convergence criteria</b>	7	4	5	1	3