

Zentrum für Europäische Integrationsforschung  
Center for European Integration Studies  
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## **The European Union and Monetary Integration in West Africa**

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## **The European Union and Monetary Integration in West Africa**

### ***I.***

This paper argues that developments in Europe have been the most important variable in monetary integration in West Africa. It shows how monetary integration in West Africa has historically been influenced by two colonial powers: Britain and France and the state of the relationship between these two European countries. The consequence of the above is that Britain and France have become major stakeholders in West Africa and failure to consult them in monetary integration matters in the region has always led to suboptimal results in the integration process. The modest monetary integration success that has been achieved by the Francophone West African countries for instance have been extensively aided by France which has acted as the agency of restraint to the arrangement. On the other hand ECOWAS wide regional integration arrangements have been mainly unsuccessful because of the sometimes divergent interests of France and Britain in the region. The consequence is that the idea of a unified West African monetary area has always failed to gain the support of the two powerful European stakeholders. Specifically, neither Britain nor France is willing to act as an agency of restraint for the entire West Africa. The absence of an agency of restraint also explains the inability of Nigeria and Ghana to achieve the establishment of a second monetary zone in the region. The new program, unfortunately, has provided no institutional framework for dealing with outside stakeholders. Despite the above shortcomings, the paper argues that the changing political landscape in Europe

may alter the nature of incentives behind the interest of foreign stakeholders in the region. This in itself could create new opportunities for a region wide monetary integration program in West Africa. To achieve its aim, this paper, including the current introductory section (Part One), is divided into seven parts. Part Two traces the origins of monetary integration in the West African sub-region while Part Three critiques the post-independence ECOWAS wide monetary integration programs in the sub region. Part Four analyses the operations of the monetary integration program in post independence Francophone West Africa while Part Five examines the origins and operational modalities of the Second Monetary Zone. Part Six attempts an analysis of the future direction and opportunities for an ECOWAS-wide monetary integration Program while Part Seven concludes the paper.

## **II.**

The idea of monetary integration in West Africa dates back to the colonial era. With the partitioning of Africa and the imposition of colonial rule, Britain and France emerged as the main beneficiaries of the territories of West Africa. In British West Africa, for instance, Britain quickly moved to put in place an economic and political system for the smooth functioning of its colonies. One of the consequences of the above development was the establishment of the West African Currency Board (WACB) in 1912.

The WACB, which was headquartered in London, was mandated to "provide for and to control the supply of currency to the British West African Colonies, Protectorates and Trust Territories." In practice however, the board was no more than a *Bureau de Change* issuing as much local currency as the banks wanted to buy for sterling and vice versa. It was therefore not in the technical sense, a monetary authority. Such a system, however, satisfied the Bank of England's monetary policy objective of achieving price stability in the colonies. The price stability policy was also compa-

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tible with British commercial interests in the colony as it helped facilitate trade with London.<sup>1</sup>

Price stability and parity conversion however had their cost: the ability of the WACB to create credit was severely hampered. This pre-central banking system also perpetuated a situation where large parts of Nigerian Government funds were held abroad. This further reduced the amount of money available for indigenous development. Access to credit was indeed what the Africans, rightly or wrongly, believed that they needed most if they were to break away from the shackles of colonialism. Dispensing with the colonial monetary system in favor of a central bank was therefore an integral part of throwing off the economic shackles of colonialism. Political factors were also at work in accelerating the change process. "Colonial territories seeking some measure of political independence have tended to regard a Central Bank as an outward and visible sign of independence and the lack of one as signifying continued subjection."<sup>2</sup> In fact Africans generally saw the WACB system as "the financial hallmark of colonialism."

It was thus not surprising that once political independence became imminent for the British West African countries, they all jettisoned the WACB in favor of a central bank. In 1957, for instance, Ghana pulled out of the WACB and established its own currency. In 1958, Nigeria set up its own central bank and adopted the Naira as its currency. Sierra Leone followed suit in 1963 adopting the Leone as its national currency while Gambia set up its own central bank in 1971 and adopted the Dalasi as its national currency. All that Britain did was to enshrine in the statutes of the above central banks, which it helped establish, regulations limiting the money creation functions of the new central banks. In Nigeria, for instance, the 1958 Central Bank of Nigeria Act explicitly stipulated that, at least for a period of five years of its coming into force, the value of external reserves

<sup>1</sup> Uche, C.U. (1997) Bank of England Vs The IBRD: Did the Nigerian Colony Deserve a Central Bank?, *Explorations in Economic History* 34, p. 220.

<sup>2</sup> Sayers, R. (1957), *Central Banking after Bagehot* (Oxford, Clarendon Press), p. 117.

to be maintained by the central bank should not be less than the aggregate of an amount representing 60 percent of the Bank's notes and coins in circulation together with an amount representing 35 percent of the Bank's other demand liabilities.

The Francophone West African countries also have a somewhat similar monetary integration history. The process there dates back to the pre-independence era. For most of the French colonial rule, these colonies were organized under one colonial administration as the French West African Federation. By the 1930's, France had undertaken to issue currencies in each colony that would be firmly linked to the French Franc. Many of these currencies in the French African colonies were subsequently consolidated into "*le franc des Colonies Francaises d'Afrique*" (CFA Franc). The objective for setting up this broad franc zone included (i) convertibility into French Francs at a fixed parity; (ii) free capital mobility throughout the zone; (iii) pooling of most foreign exchange reserves at the French treasury; (iv) the establishment of a common trade and financial policy vis-à-vis the rest of the world and; (v) guarantee of convertibility by France through the establishment of "operation accounts" for each colonial central bank with the French Treasury.<sup>3</sup>

By 1958, most of the French colonies had become autonomous within the French West African Federation. Only Guinea opted for complete political independence in the Gaullist referendum held that year. Even with the 1958 political developments, the degree of economic integration among these former French colonies remained high. It was only with the advent of political independence of these French colonies (1960), when the federation broke up into independent countries that barriers to trade and movement of

<sup>3</sup> Boughton, J. (1991), *The CFA Franc Zone: Currency Union and Monetary Standard*, *International Monetary Fund Working Paper Number WP/91/133* (Washington D.C., International Monetary Fund), p. 1-2.

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factors of production began to emerge.<sup>4</sup> With political independence, several attempts at forming a pan-Francophone body in the region failed. This was mainly because France opposed the formation of any strong federation in the region. In 1959, for instance, France successfully blocked the establishment of a potentially strong political federation comprising of Senegal, Benin (then Dahomey) and Burkina Faso (then Upper Volta). Instead, it preferred to encourage the establishment of customs union among its former colonies. This was because France was mainly interested “in maintaining easy access to the markets of her former colonies”.<sup>5</sup> This was the motivation behind the French support for the establishment of Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO) in 1962.

Under the currency arrangements of 1962, France specifically guaranteed the value and convertibility of the CFA Franc by tying it to the value of the French Franc. Basically, this was simply an extension of the pre-independence monetary arrangements in the region.<sup>6</sup> The implication of this is that these central banks could only, as before, influence the money supply in their territories by drawing on their overdraft account with the French Treasury. In practice, the cost of this arrangement on the French economy has been insignificant. Although France may consider this as an aid to Francophone African countries, such an arrangement also has benefits for France. This is because while the “cost of maintaining the Zone is borne by the French State.... the currency convertibility it guarantees with the French Franc has favored French companies in their dealings in the zone”.<sup>7</sup>

<sup>4</sup> Manu, M. (1989), *The Future of ECOWAS*, The Nigerian Institute of International Affairs Lecture Series Number 49 (Lagos, Nigerian Institute of International Affairs), p. 4.

<sup>5</sup> Mytelka, L.K. (1974), *A Genealogy of Francophone West and Equatorial African Regional Organizations*, *The Journal of Modern African Studies* 12, p. 300.

<sup>6</sup> Boughton, J.M. (1992), *CFA Franc: Zone of Fragile Stability in Africa*, *Finance and Development*, p. 29, p. 34-35.

<sup>7</sup> Moncrieff, R. (2001), *Growing Up With the Umbilical Cord Attached: Developments in the African franc Zone: 1994-2001*, Research Document, Foreign and Commonwealth Office London, p. 4.

It is perhaps because of its minimal costs and its attendant benefits that the French authorities were, at least at the beginning, unwilling to enforce the strict regulations for the operations of the overdraft account with the Treasury. This is perhaps one of the main reasons why the system survived the gaining of independence by most Francophone West African states. Like the WACB, this monetary arrangement guaranteed these former French colonies price stability. Unlike the WACB, however, money supply could be expanded, under the Francophone arrangement, by the participating central banks. This gave the central banks of the newly independent Francophone states relatively more powers to influence their economic environment.

Another reason that ensured the long-term survival of the CFA Franc Zone was the decisiveness of France in dealing with its colonies that refused to tow its preferred line of action. The total excommunication of Guinea sequel to its 1958 referendum vote for independence is an example of this. It is perhaps the fear of such reprisals and the benefits of monetary stability that the CFA Franc Zone guarantees that made most Francophone West African states reluctant to radically alter their relationship with France even after independence. Under such circumstances, the French Treasury has been able to act as an effective agency of restraint for monetary stability in Francophone West Africa. In the next section we will show how the lackluster performance of an ECOWAS wide monetary integration program has in the main been caused by lack of consultation with outside stakeholders and the absence of a credible authority that can serve as an agency of restraint.

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### III.

Despite the geographical proximity of the West African countries, colonization made it difficult for them to relate with their neighbors. This was true both among Francophone and Anglophone states. Essentially, the British and French authorities were only interested in promoting trade between the individual colonies and their respective home countries. This was mainly because what attracted the foreign commercial institutions to the continent was the availability of cheap and abundant raw materials, which could service European factories. There was thus no commercial interest in promoting intra regional trade. Most of the infrastructure the British colonial masters put in place was thus aimed at helping evacuate minerals and raw materials from the hinterland to the coastal regions for onward transportation to Europe. This sometimes resulted in the establishment of cross-colony infrastructure. This was especially so with respect to landlocked countries. Mali, for instance, was linked to Senegal by rail. This ensured that raw materials and minerals from Mali could be exported through the seaport of Dakar. Burkina Faso, another landlocked country, was also linked by rail to Abidjan. This, no doubt, was commercially driven. Telecommunication and air transport arrangements were all aimed at servicing inter-continental rather than intra regional trade. Even to date, inter-continental communication, in most cases, is easier and cheaper than intra West African communications. It is, for instance, usually faster for a letter from, say, Nigeria to Senegal, to go via Europe than direct.<sup>8</sup>

The advent of political independence for most of the countries in the West African sub region led to a rethink of the pre-independence economic relationships among these geographical neighbors. While some of these West African countries openly canvassed the idea of regional integration, others, because of “deep suspicions and political and ideological differences,”

<sup>8</sup> Uche, C.U. (2001), The Politics of Monetary Sector Cooperation Among the Economic Community of West African States Members, *World Bank Policy Research Working Paper Number 2647* (Washington DC, World Bank), p. 27.

were much more cautious preferring a phased approach towards regional integration.<sup>9</sup>

Despite the reservations about supranationality, the spirit of nationalism and the euphoria of independence ensured the prevalence of the view, among African leaders, of the need to end African economic dependence on the West. Most of the West African countries subsequently adopted Import Substitution Strategies (ISS) as a first step towards entering into regional integration arrangements. This strategy however proved unsuccessful for various reasons.<sup>10</sup>

With a failed ISS program, most West African economies remained primary product based. This made difficult the development of a sustainable basis for regional integration. It is thus not surprising that most of the bilateral and multilateral arrangements in the region are no more than political agreements, which have very little influence on real economic integration. Despite these arrangements, trade among these neighbors, till date, remains insignificant.

Low regional trade was interpreted in some circles to be a consequence of the payments system in place at the time. Along these lines, the Association of African Central Banks, in 1972, set up a Study Group to examine trade and monetary relations in the West African sub-region. The report argued that the problems of intra-sub-regional trade payments arise not so much from the insufficiency of existing facilities for effecting payments as from the long delays encountered in receiving payments. Such delays arise mainly because of balance of trade difficulties and scarcity of foreign exchange in member states. The report thus concluded that the “establishment of

<sup>9</sup> Economic Community of West African States (1992), Review of the ECOWAS Treaty: Final Report by the Committee of Eminent Persons, p. 16.

<sup>10</sup> See Aryeetey, E. (2001), Regional Integration in West Africa, OECD Development Centre Technical Paper Number 170, p. 13.

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some type of payment arrangements that would facilitate prompt receipt of export proceeds by exporters would stimulate intra-sub-regional trade.”

In 1973, the Association of African Central Banks set up another study group to recommend guidelines for the establishment of a clearing arrangement between member states of the West African sub-region. Their report recommended the following operational modalities: membership of the clearing house should be made optional; payments for transactions among BCEAO member countries, which already have an agreement, should not be channeled through the West African Clearing House (WACH); all intra sub-regional transactions, except inter-government grants and loans, should be channeled through WACH; payments for all goods, except re-exports should be eligible for settlement through WACH; all the accounting transactions of the clearing house be conducted in a West African Unit of Account (WAUA) which is to be fixed to the International Monetary Fund (IMF) Special Drawing Right at a given parity; the settlement period for all debts under WACH 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. WACH was subsequently established in 1975.

Operationally, the payment mechanism of WACH was similar to the clearing transaction by national central banks of cheques submitted by commercial banks, with the clearing house acting like a national central bank and the clearing banks acting like commercial banks. At the time WACH was introduced, a clearing-house system made sense in the sub region. There were 10 currencies, most of which were inconvertible, being used among the 16 member states of ECOWAS. These currencies fell under two main monetary zones: the West African Sterling Area and the Franc Zone. The West African Sterling Area comprised of Gambia, Sierra Leone, Ghana and Nigeria while the Franc Zone comprised of Mauritania, Mali, Burkina Faso, Ivory Coast, Togo and Benin. At least three of the countries in the re-

gion did not belong to any of these two monetary regimes already mentioned (Guinea, Liberia and Guinea Bissau).

Within the franc zone, trade in goods and services was generally free from controls and transfers of payments from such transactions were also not restricted. There was also free movement of capital within the area. Trade with non-Francophone West African states was however subject to varied degrees of restrictions. Capital movements to these countries were also restricted. In the Sterling Area, however, the situation was different. Every country had its own central bank, issued its own currency and followed independent monetary, exchange and credit policies. Although sometimes loose arrangements between central banks of these countries existed, especially for the settlement of certain government accounts, like embassy accounts, there was generally no co-ordination of policies.<sup>11</sup> With the exception of the Gambia, there were also quantitative restrictions on trade in goods and services as well as capital movement within the West African Sterling Area.

In practice however, the introduction of WACH did very little to promote trade in the sub region. This was perhaps because no interested party was willing to subsidize the system. Nigeria, with its oil wealth at the time, was in a position to do this. It however failed to do so. Against the recommendation of the 1973 WACH Study Group, Nigeria refused, from the beginning, to channel trade in its major foreign exchange earner-oil- through the clearinghouse mechanism. Despite the fact that WACH had similar objectives with ECOWAS, Nigeria refused to make this important sacrifice. Although Nigeria was instrumental to the establishment of ECOWAS, its gradually worsening economic conditions made it difficult for the country to support the body effectively, by acting as the hegemon. In fact, the rapid

<sup>11</sup> Association of West African Central Banks [West African Sub-Regional Group] (1973), Report of the Study Group on Guidelines for the Establishment of a Clearing Arrangement Between Member States of the Sub-Regional Committee (Unpublished), p. 4.

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economic deterioration of the country and lack of fiscal policy restraint by successive governments caused it to become a risk rather than an asset to the entire ECOWAS integration process.<sup>12</sup> This is so because the country constitutes over 50 percent of the ECOWAS economy. A fiscally unstable Nigeria will thus be a danger to a financially integrated ECOWAS. Without any willing and able hegemonial power in the region, it was not surprising that intra regional trade only recorded minimal increases and the achievement of the objective of monetary integration, across colonial lines, is still far from reality. It was also not surprising that the introduction of WACH did little to improve trade and economic integration in the sub region.

The fortunes of WACH started to change for the worse in the mid 1980s, when an increasing number of ECOWAS member states started adopting various forms of Structural Adjustment Programs. This led to the relaxation of exchange controls and the adoption of market determined exchange rates. This in turn led to a drastic decline in the level of transactions channeled through WACH.<sup>13</sup> It therefore became obvious that it was only a matter of time before WACH became redundant and irrelevant.

In 1987, the ECOWAS Heads of State and Government adopted the ECOWAS Monetary Cooperation Program (EMCP) in Abuja, Nigeria. The main objective of this EMCP is the adoption of collective policy measures in order to achieve a harmonized monetary system and common management institutions. The specific objectives, designed to be achieved, over time include:

<sup>12</sup> Masson, P. and Pattillo, C. (2004), A Single Currency for Africa? *Finance and Development* (December), p. 13.

<sup>13</sup> Asante, R. (1995), The Transformation of a Clearing House into a Specialized Monetary Agency, *Paper Presented at the Workshop on the Future role of COMESA Clearing House* (Harare, Zimbabwe, 21-22 August 1995), p. 2; and, the West African Clearing House, *Annual Report and Statement of Accounts* (1989/1990), p. 5.

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- To facilitate, in the short term, regional trade transactions by improving and strengthening the multilateral regional payments and clearing system of the WACH;
- To achieve, in the medium term, regional currency convertibility through the more liberal use of national currencies in intra-regional trade transactions, at market related exchange rates;
- In the long term, to establish a single monetary zone characterized by the use of a common convertible currency, managed by a common central bank, and supported by a *convertibility guarantee arrangement with an appropriate external body*.

In order to achieve the above policy objectives, a number of policy measures were outlined for implementation during the transitional period of 7 years (1987 to 1994). The short term policy measures were: the clearing of outstanding payments arrears in the WACH system; the introduction of a new payments instrument such as West African Travelers' Cheques and Bills of Exchange through the clearing system; the introduction of a Credit Guarantee Fund in the WACH system; the transformation of WACH into a specialized monetary agency of ECOWAS; the removal of non-tariff barriers of monetary nature; and the extension of the range of eligible products and other transactions channeled through the clearing system.

The medium and long term policy measures include: the adjustment of exchange rates of regional currencies to equilibrium levels; liberalization of current and capital transactions within the region; the adoption of an ECOWAS exchange rate system based on the market; the adoption of a common central bank credit ceiling of 20 percent to government based on the previous years' fiscal receipts; the adoption of a market oriented approach in the use of available monetary policy tools; the adoption of the

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calendar year as financial year; and achievement of single digit inflation rate. The potential benefits of the EMCP were identified as follows:

- The possibilities of reaping the benefit of scale in monetary management;
- Greater efficiency and rational use and allocation of scarce human, material and financial resources;
- The facilitation of intra regional trade and payment transactions as the use of a common currency would effectively create a single regional market over a wider geographical area of sixteen countries with over 200 million people;
- The spin-off effect of the use of a single currency will facilitate greater inflow of foreign capital and stem capital flight as a result of the improved credibility of the region in international monetary and financial circles;
- The elimination of widespread and illegal speculative cross border currency trafficking activities with its price distortions which encourage smuggling activities;
- Savings in the use of foreign exchange involved in intra regional trade and payments transaction.

In line with some of the above objectives, ECOWAS, in 1991, set up a study group to examine the possibility of redefining the objectives and activities of WACH with the view of adapting it to the economic trends in the sub region. In October 1991 the committee recommended that in the long

run, WACH should be transformed into a specialized agency of ECOWAS. This decision was adopted by the Governors in February 1992, and approved by ECOWAS Heads of State in July 1993. This culminated in the establishment of the West African Monetary Agency (WAMA) in 1994. WAMA was mandated to: promote monetary co-operation and payment issues within the context of the economic and monetary integration of the region; initiate and promote policies and programs for achieving monetary integration; facilitate the harmonization and co-ordination of macro-economic policies and structural adjustment programs of member states and; ensure the establishment of a single monetary zone.<sup>14</sup> In order to harmonize the region's economies for subsequent integration, the following convergence criteria were set: all member states to reduce the ratio of budget deficit to GDP to a maximum of 3 percent; the governments of all member states to reduce progressively their borrowing from the central bank to a ceiling of 10 percent of the previous years' fiscal revenue; the maintenance of a single digit inflation rate for all countries; countries with floating regimes should reduce variability of nominal exchange rates to less than 5 percent. For countries with non-floating exchange rate regimes any over-valuations should be eliminated.

In reality, ECOWAS member states decided to go for deeper monetary integration (single monetary zone) despite the fact that they failed to successfully run a much simpler scheme (clearing house).<sup>15</sup> This perhaps explains the poor performance of WAMA since its establishment. In 1990, for instance, the earlier transition period towards monetary integration was modified to 2000. This has subsequently, in 1998, extended to 2004. More recently, 2010 have now been set as the new target date despite the fact that the methodology of this transition still remains unclear.<sup>16</sup>

<sup>14</sup> Asante, 1995, p. 5.

<sup>15</sup> Uche, 2001, p. 30.

<sup>16</sup> According to the 2007 Annual Report of WAMA: "Giving credence to the need to accelerate the monetary cooperation programme and the fact that some countries have currently satisfied the basic requirements.... [a WAMA background] paper subsequently proposed the following three options, each of which could be implemented

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A major hindrance to the existence and effectiveness of ECOWAS-wide monetary integration programs has been the lack of political will by member states and the existence of a strong Francophone regional grouping with similar objectives.<sup>17</sup> Despite the replacement of WACH with WAMA, most of the fundamental problems that had frustrated the activities of WACH remain ever present. What ECOWAS did was simply to sweep them under the carpet. The major problem is that most ECOWAS member states are weak in infrastructure, economically and politically. They represent some of the poorest states in the world. Among themselves, they have done little to promote integration. This is mainly because the short-term costs of looking inwards could be high with little or no attendant short-term benefits. For instance, should regional co-operation go contrary to the interest of non-regional member countries, some of these ECOWAS member states run the risk of losing development aid and debt relief programs on which their economies depend. On the other hand, there is no ECOWAS member country that is strong enough to act as a hegemon to its brother states. The case of the Francophone West African countries is an example. These countries continue to receive immense financial support, in the form of economic and technical aid, from France. The majority of their trade is also with France. Any ECOWAS based integration process that aims at promoting intra ECOWAS trade is likely to do so at the expense of France. The question therefore will be whether these Francophone countries are willing to pursue a regional agenda at the expense of their individual relationships with France?

by 2010, subject to prior conclusion of relevant arrangements: Option I: Creating the ECOWAS Monetary Union on the basis of prescribed eligibility quantitative and qualitative convergence criteria; Option II: Creating the ECOWAS Monetary Union by political fiat with no prior conditions; and Option III: Creating the ECOWAS Monetary Union through accession by the non-UEMOA zone countries to the existing West African Economic and Monetary Union” (5).

<sup>17</sup> The West African Monetary Institute, Press Release: A Second Monetary Zone in West Africa to Energize the Integration Process and Economic Activity of the Sub Region (Accra, May 25, 2001), p. 2.

#### IV.

As has already been mentioned, since 1962 the Francophone West African countries have shared a common currency, the CFA Franc, which has a fixed parity with the French Franc. Operationally, the BCEAO has an operations account with the French Treasury into which they deposit 65 percent of their foreign exchange holdings. Provisions for central bank overdrafts on these accounts support convertibility of the CFA francs into French francs through authorized intermediaries. Traditionally, three basic mechanisms are used to control monetary growth in member countries. These include: charging interest on overdrafts and paying interests on credit balances in the central bank's operations account; restricting credit provided by central banks to the government sector of the member countries to 20 percent of its fiscal revenue in the previous year; and, requiring the BCEAO to restrict credit expansion to member countries whose central banks' operations account falls below an agreed target level. These mechanisms are not intended to place an absolute ceiling on the credit growth of member countries. Rather, they are supposed to help encourage financial discipline and discourage inflation in the CFA Franc Zone.<sup>18</sup>

<sup>18</sup> IMF Survey: A publication of the International Monetary Fund (January 24, 1994, p. 18). This arrangement has changed little even with the actualization of monetary integration in the EU. It has, for instance, been asserted that: "With the coming into force of the European Union, it was agreed that France should be allowed to continue their exchange rate arrangements with WAEMU countries. The agreement was not considered to have any material effect on the monetary and exchange rate policy of the euro area or any obstacle to the smooth functioning of the economic and monetary union. France was therefore explicitly allowed to continue their exchange rate arrangements with the European Union must be obtained." See European Union, *Monetary and Exchange Rate Agreements of the Community and Member States with Third Countries and Territories* (Information Note, Directorate General Economic and Financial Affairs, Brussels, 2<sup>nd</sup> February 2001). WAEMU countries after the substitution of the French Franc with the Euro. France is however obliged to keep the Commission, the European Central Bank and the Economic and Financial Committee informed on regular basis about the implementation of the agreement. Furthermore, France is obliged to inform the Economic and Financial Committee prior to changes of the parity between the Euro and the CFA. Should France want to modify the agreement to the extent that their nature and scope is not changed, they have only to inform the Commission, the European Central Bank and the Economic and Financial

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In 1969 these countries decided to further deepen their relationships with the establishment of the *Communauté économique de l'Afrique de l'ouest* (CEAO). This was with the active support of France. According to the then President of France -Georges Pompidou- such a Francophone grouping was necessary “in order to counter-balance the heavy weight of Nigeria.”<sup>19</sup>

Although it is generally believed that the pegging of the CFA franc to the French franc helps promote stability and economic growth in the CFA Franc zone, this has not always been the case. From 1985, the economic and financial conditions of the CEAO member countries began to deteriorate. This was mainly because of the sharp drop in world market prices of their main export commodities- cocoa, coffee, cotton and petroleum- and the appreciation of the French franc in the international market. Given the peg of the CFA franc to the French Francs, the CFA franc also appreciated considerably. This made the exports of the CEAO countries more expensive and less competitive in the international markets. This made the economies of these countries suffer great reverses.<sup>20</sup> It “led to a serious decline in the competitive position of the CFA franc zone and a substantial weakening of the economic situation in the region.”<sup>21</sup> Under the monetary arrangements in existence, the individual countries had limited scope for maneuver in their attempt to address their deteriorating economies. Indeed they could only attempt restructuring with fiscal policies. A number of countries tried to respond to these difficulties by strengthening their internal adjustment efforts. These internal measures, while necessary (especially

Committee prior to such changes. Any plans to change the nature and scope of the exchange rate agreements have to be submitted to the Commission, the European Central Bank and the Economic and Financial Committee. Before such changes can come into effect, the approval of the Council of the

<sup>19</sup> Quoted in West Africa (7<sup>th</sup> July, 1972, 867).

<sup>20</sup> Please note that the economic deterioration of the 1980s/ early 1990s was not limited to Francophone West African countries. Most Anglophone West African countries also had similar experiences and adopted various forms of structural adjustments to combat them.

<sup>21</sup> Hernandez-Cata *et al.*, (1998), The West African Economic and Monetary Union: Recent Developments and Monetary Issues, *International Monetary Fund Occasional Paper Number 170* (Washington D.C., International Monetary Fund), p. 3.

those aimed at controlling wage costs and restructuring the public sector), proved to be insufficient, because of the magnitude of the shocks and the size of the imbalance. In fact, the “pursuit of this strategy resulted mainly in increased tax rates and cuts in priority current and capital expenditures, particularly on education, health and infrastructure, thereby jeopardizing the bases for sustainable growth.”<sup>22</sup>

The fact that the Francophone countries did not opt to go their way during these period of difficulties shows the role of an agency of restraint in long-term monetary stability of any region. Furthermore, the fact that the countries concerned opted to make a uniform monetary adjustment – 50 percent devaluation of their currency – despite rather different economic situations, bears witness to their desire to maintain the solidarity that links them together. In fact the agreement was only possible with the approval of France. This was because France, as the hegemon of the system, economically supported CFA Franc member countries in coming to terms with the 50 percent devaluation of their currency. France achieved this by:

- Canceling, unilaterally, a substantial portion of the debt of each country in the franc zone (F25 Million). For the poorest countries, all development assistance loans were forgiven while half of the development assistance loans for the middle-income countries were forgiven;
- Setting up a special development fund designed to improve the living conditions of the people residing in disadvantaged urban areas of the disadvantaged Francophone West African states;

<sup>22</sup> IMF Survey, February 7, 1994, p. 34.

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- Contributing significantly towards covering the Francophone West African countries' financial requirements within the framework of programs agreed with the International Monetary Fund.<sup>23</sup>

These Francophone West African countries however did not stop at the devaluation of their currency. They used the opportunity to strengthen their political, economic and monetary solidarity and to reaffirm their commitment to the principles and stability that characterize the franc zone.<sup>24</sup> This was done with the replacement of the CEAO with the WAEMU.<sup>25</sup> The main goals of WAEMU are:

- To reinforce the competition of the economic and financial activities of the member states in the context of an open and rival market and a rationalized and harmonized judicial environment;
- To ensure the convergence of the macroeconomic performances and policies of member states with the institution of a multilateral control procedure;

<sup>23</sup> IMF Survey, March 21, 1994, p. 20.

<sup>24</sup> Joint Declaration of the Chiefs of States and Heads of Government of the African Member Countries of the UMOA and BEAC Area (Dakar, January 11, 1994), reproduced in IMF Survey (Special Supplement) March 21 1994, p. 18).

<sup>25</sup> "The transformation in 1994 of the francophone monetary union (WAMU) into an economic and monetary union (WAEMU) caused quite a stir among the other ECOWAS countries. The reason given by WAEMU for deepening this co-operation arrangement was to have control over other national policies that affect the common monetary policy, and also enhance the contribution that a monetary union makes to the economic performance of the individual countries. Since ECOWAS has the same WAEMU objectives and already had programmes in the new areas, it seemed ECOWAS was not thought to be capable of moving fast enough, because of lack of commitment" See Economic Community of West African States, Regional Economic Groupings and ECOWAS Governance, *Memorandum from ECOWAS Secretariat to the Workshop on "Vision 2010 and West Africa"* (Abuja, 29-30 June 1997), p. 9.

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- To create, among the member states, a common market based on the free movement of people, goods, services and capital and the right of the people, exercising an independent and remunerated activity, to establish a common external tariff and a common commercial policy;
- To harmonize, if the necessity arose for the good operation of the common market, legislation of the member states and especially the fiscal system;
- To institute a coordination for the national sector based policies with the implementation of common actions and, conceivably, common policies, especially in the following domains: community based land reclamation, agriculture, environment, transport, infrastructure, telecommunications, human resources, energy, industries, mines and crafts.

The WAEMU agreement was further strengthened in 1999 when the heads of states of WAEMU countries adopted the Regional Convergence, Stability, Growth and Solidarity Pact. This was because the continued depreciation of the economies of the WAEMU member states made it evident that the existence of a common currency was not a sufficient condition for economic growth to occur.<sup>26</sup> WAEMU thus adopted various convergence criteria, similar to that of WAMA, with the aim of strengthening the convergence of the economies of the member countries, reinforcing macroeconomic stability, accelerating economic growth and enhancing solidarity among member countries.<sup>27</sup>

<sup>26</sup> Economic Community of West African States (2000), *Establishment of A second Monetary Zone in West Africa: Main Report by the Technical Committee on Monetary Issues* (Abuja, Economic Community of West African States), p. 11.

<sup>27</sup> WAEMU adopted primary and secondary convergence criteria that were similar to those adopted by WAMA.

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Despite its checkered history, WAEMU is still seen as a model for monetary integration in West Africa.<sup>28</sup> This is because its agency of restraint mechanism ensures economic stability, which is essential for economic development and growth. Admittedly, the experience of WAEMU has shown that member states of a monetary union, where the currency is externally anchored, could suffer from externally induced shocks. The impact of such shocks will however be greatly reduced if member states of such a monetary union make concerted efforts to harmonize and converge their economies. The adoption, by WAEMU member states, of a Regional Convergence, Stability, Growth and Solidarity Pact in 1999, should improve the resilience of the region to externally induced shocks in the future. It is therefore no surprise that some scholars have even suggested that a possible way forward for ECOWAS wide integration is for non WAEMU West African Countries to join the CFA Franc Zone.<sup>29</sup> For some time now, for instance, there has been growing pressure on Ghana to join WAEMU. A study commissioned by the Government of Ghana has however advised against such a move. According to the report:

in view of Ghana's historic commitment to the political and economic unity of West Africa, and particularly to the integration process of ECOWAS, which has been admirably sustained and variously demonstrated by the country's leadership, coupled with the sharing of this commitment with Nigeria since the establishment of ECOWAS, it would not appear to be in the interest of Ghana to join UEMOA under Article 103 of the Union's Treaty [as a full member] which might lead to a breakdown of the ECOWAS front and the abandonment of the country's proud history and highly cherished heritage as vanguard of pan-Africanism and African independence. Significantly, too, UEMOA as an economic unit is a weak entity, particularly when viewed from the long-term perspective, compared to ECOWAS, as it does not present an optimal market size, so that even if the potential exists for Ghana's goods, it is doubtful if that potential could be sustained.<sup>30</sup>

<sup>28</sup> WAMA Annual Report, 2007, p. 31.

<sup>29</sup> See, for instance, Soludo, C.C. (1995), A framework for Macroeconomic Policy Coordination Among African Countries: The Case of the ECOWAS Sub-region, *African Economic and Social Review*, 1, p. 23-24.

<sup>30</sup> Asante, S. and Abankwa, A (1999), *Report on a Study of the impact of the West African Economic and Monetary Union (UEMOA) on Ghana* (Submitted to the Ministry of Finance [Ghana] the Contracting Agency), p. 93.

From the above, it is clear that politics and nationalistic pride were major factors that shaped the advice that Ghana should not join WAEMU. This was so despite the fact that it is generally agreed that a strong and integrated ECOWAS will yield better economic results for its member states than the current distraction created by the existence of a strong WAEMU within a weak ECOWAS. Rather than expand an existing body that is already functioning (WAEMU), colonial divide and pride prodded non WAEMU West African countries to establish a second monetary zone in the region. This strategy is supposed to help accelerate the achievement of an ECOWAS wide monetary union in the region. The weak assumption is that at the very least, this should help convince the CFA Franc group about the viability and feasibility of an ECOWAS single monetary zone.<sup>31</sup>

## V.

The idea of a second monetary zone in West Africa was championed by Nigeria (Under Olusegun Obasanjo) and Ghana (under Jerry Rawlings). In December 1999, the two countries met in Accra and agreed to set up a second monetary zone in West Africa that would embrace all the non CFA Franc West African countries. In April 2000, the Heads of States and Governments of the Gambia, Ghana, Guinea, Liberia, Sierra Leone and Nigeria signed an agreement (the Accra Declaration) for the establishment of a second monetary zone in West Africa.<sup>32</sup> This second monetary zone (WAMZ) was initially expected to come into force in January 2003 with the establishment of a West African Central Bank and the introduction of a Common Currency (the “Eco”) for the participant countries. The West African Monetary Institute (WAMI) was also set up to help achieve the above objective. Specifically, WAMI has been charged with the following functions:

<sup>31</sup> See Asante, R. (2001), The Rationale and Feasibility of a Second Monetary Zone in West Africa, *The Bullion* 25, p. 20.

<sup>32</sup> Guinea is the only non-English speaking country in the group.

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- To provide the framework for intense cooperation between member central banks in WAMZ and to foster the feeling of ownership of the future central bank;
- To harmonize the laws and regulations of financial markets and institutions in member countries. Monetary policies and accounting practices of member countries are also to be harmonized;
- To study the issue of exchange rate parities within WAMZ and recommend the appropriate exchange rate mechanism and parities for the existing currencies in the second monetary zone;
- To monitor the state of convergence of member countries vis-à-vis the prescribed benchmarks;
- To promote the development of a payment system in WAMZ in order to facilitate the implementation of a second monetary policy;
- To design the new currency to be issued by the West African Central Bank and to prepare for its implementation;
- To embark on a program of sensitization of the citizens of the participating countries in order to create wide public support for the introduction of the new currency;
- To create the conditions for a smooth transition to the new common currency by ensuring that regulations in member countries are consistent with the introduction of a new currency, prices are quoted in the new currency as well as any other practical issues that will facili-

tate the smooth introduction of the new currency and the withdrawal of the old currencies.<sup>33</sup>

Based on the above, WAMI has developed convergence criteria, similar to those of WAMA and WAEMU, for the member countries. Specifically, WAMI has set out four primary and six secondary convergence criteria for member countries to adopt before the achievement of a single currency. The primary convergence criteria included: the attainment of a single digit inflation rate by 2000 and five percent by 2003, gross external reserves to cover at least three months of imports by end of 2000 and six months by end of 2003, central banks' financing of government deficits to be limited to 10 percent of previous year's tax revenues, budget deficits (excluding grants) to GDP ratio of not more than 5 percent by 2000 and 4 percent by 2002.

The secondary criteria include: prohibition of new domestic debt arrears and liquidation of all existing arrears, tax revenue GDP ratio to be equal to or more than 20 percent, public investment / tax revenue ratio to be equal to or more than 20 percent, maintenance of real exchange rate stability in the context of an exchange rate mechanism and the maintenance of positive real interest rates. Even with the multiple postponements of the commencement date, there have been mixed results with respect to the attainment of the above convergence criteria. According to a 2007 WAMI report:

At the end of 2007, the Gambia and Nigeria maintained the four primary criteria, which they had fulfilled in 2006. Guinea complied with two primary criteria compared to one in 2006, whereas Sierra Leone and Ghana fulfilled two each. The Zone continued to make modest progress in respect of all the secondary criteria, except with the tax revenue/ GDP ratio which declined in 2006 and 2007, as well as the wage bill which expanded in the zone.<sup>34</sup>

<sup>33</sup> See the West African Monetary Institute (2000), *Agreements, Statutes and Other Provisions of the West African Monetary Zone*, Articles 4-7.

<sup>34</sup> See West African Monetary Institute, *Macro Economic Convergence Report*, 2007, 23. More recently, the Director General of WAMI has asserted that: "With respect to performance on the macroeconomic convergence scale, overall compliance for the

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Even the progress that has been made towards the attainment of the set convergence criteria has not necessarily been because of the ability of WAMI to act as an agency of restraint to the WAMZ member countries. Rather, it has been induced externally by the attempts of the various member countries to adhere to the IMF structural adjustment conditionality.<sup>35</sup>

Apart from these set convergence criteria, there are also other critical issues that WAMI is yet to address. It is for instance still not clear if all the WAMI member countries will proceed with monetary integration whether or not they achieve the WAMI prescribed convergence criteria. Furthermore, details are murky with respect to the planned merger of the two monetary zones which can only take place after WAMZ becomes operational. Even with numerous postponements, it is now doubtful whether the WAMZ would ever become operational. Political developments in WAMZ no doubt helped to complicate the integration process. As was mentioned earlier, the second monetary zone was championed by Nigeria and Ghana. Since then, however there have been changes of leadership in both countries. In January 2001, for instance, John Kufuor replaced Jerry Rawlings as President of Ghana. This now former president was keenly interested in an ECOWAS wide regional integration.<sup>36</sup> In practice, however, their approaches to regional integration turned out to be different. During his presidency, Kufuor moved to improve relations with the Francophone countries that sandwich his country. With respect to Togo, for instance, the

Zone was two primary criteria, a deterioration from the previous assessment. The single digit inflation rate criterion was missed, although the level improved in 2009 compared to 2008. During the assessment period, the Gambia met three primary criteria, compared to all the four they had achieved and sustained since December 2006. Ghana met two of the criteria, an improvement on 2008 when none was met. Guinea's performance deteriorated from two criteria in December 2008 to one in 2009. Liberia and Nigeria attained three of the criteria in 2009. Sierra Leone slipped to one in 2009 as against two primary criteria in 2008." See WAMI (2010), 29<sup>th</sup> Meeting of the Technical Committee of the West African Monetary Zone, *Final Report* (Banjul, the Gambia, July 27-28, 2010).

<sup>35</sup> Obikaonu, F. (2001), Monetary Cooperation Under Economic Community of West African States (ECOWAS): Issues, Progress and Prospects, *Bullion* 25, p. 46.

<sup>36</sup> Quoted in the Gri Press Review [Ghana] of January 4, 2001.

usual tension around the Togo/ Ghana border was eased with the result that the opening hours of the border were extended considerably. Furthermore, Ghana under Kufuor also seriously considered joining the Organization pour l'Harmonisation en Afrique du Droit des Affaires (OHADA), which is a Francophone-dominated continental body that seeks to promote regional integration and economic growth through the harmonization of business laws in Africa.<sup>37</sup>

During the Kufuor presidency, the tempo of the second monetary zone not surprisingly changed. Ghanaian monetary authorities began to express reservations and called for caution in the march towards the establishment of the second monetary zone. The Governor of the Bank of Ghana at the time, for instance, argued that issues like the harmonization of accounting systems, banking regulation and the legal framework for public accounting should be given priority.<sup>38</sup> Based on the above, it was not surprising that for most parts of the Kufuor presidency the WAMZ activities came to a virtual standstill. In fact no Summits of Heads of States and Governments of WAMZ member countries have been held since May 2005 (WAMZ 2008, p.6).<sup>39</sup> The idea of a fast track program is at best in a state of paralysis.

<sup>37</sup> The idea of OHADA was first mooted in 1963 at a meeting of Justice Ministers of 16 African Francophone countries. It was however not until October 17, 1993 that 14 African states signed the treaty. The treaty, which came into force in September 19, 1995, now has 16 signatory members. They include, among others, Ivory Coast, Burkina Faso, Benin, Senegal, Mali and Togo (The Weekend Statesman [Ghana], October 25, 2001, p. 1).

<sup>38</sup> Acquah, P, Speech Delivered by Dr Paul Acquah, Governor of the Bank of Ghana at the Bank of England/ WAMI Workshop on Monetary Union (Accra, 28<sup>th</sup> January, 2002), p. 4-5.

<sup>39</sup> The West African Monetary Zone, 22<sup>nd</sup> Meeting of the Convergence Council of Ministers and Governors of Central Banks of the West African Monetary Zone, Final Report (Freetown, June 19, 2008), p. 6.

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### VI.

From the preceding analysis, it is clear that the fast track program has all the hallmarks of the previous attempts by ECOWAS to achieve ECOWAS-wide monetary integration. One of the main reasons for the failure of WACH was the absence of an external and efficient agency of restraint to help make member states to adhere to WACH regulations. It was therefore no surprise that EMCP made explicit the need for the proposed single monetary zone to be supported by a convertibility guarantee arrangement with an appropriate external body. Unfortunately, WAMA, till date, has not been able to implement this. The current program for the establishment of a second monetary zone also has the same problem. It is difficult to see how very poor countries can adhere to strict convergence criteria capable of, at least sometimes, causing social upheaval at home, unless a strong agency of restraint can enforce compliance. Although a Stabilization Cooperation Fund has been set up under the WAMZ program, this is simply not enough. It has, for instance, been argued that:

... at present details are lacking on how the fund might function. It should be noted that for such a fund to be operational, the commitment of each country to help out its neighbors must be strong. In the past, some countries have not paid their dues to the ECOWAS institutions for many years. In addition, given the size of Nigeria relative to its neighbors, the operation of such a fund may well be asymmetric. Transfers to the smaller countries if they get into difficulties could be sizable, but if Nigeria were to draw, it could quickly exhaust available resources of the fund.<sup>40</sup>

The proponents of monetary union in West Africa argue that it could, by taming inflation and stabilizing exchange rates, help create conditions that will enhance opportunities for economic growth.<sup>41</sup> This however can only happen when there are incentives for the countries to remain part of the

<sup>40</sup> Masson, P. and Pattillo, C. (2001b), Monetary Union in West Africa (ECOWAS): An Agency of Restraint for Fiscal Policy? *International Monetary Fund Working Paper WP01/34*, p. 13.

<sup>41</sup> See Asante, R. and Masson, P. (2001), The Pros and Cons of Expanded Monetary Union in West Africa: Talk with Jacqueline Irving of the IMF's External Relations Department, *Finance and Development* 38, p. 25.

scheme. Where there is no loss of benefits occurring by being on the outside, member countries could rescind their membership of such unions, and opt for expansionary credit policies, when faced with domestic economic problems.<sup>42</sup>

Unfortunately, neither the ECOWAS-wide monetary integration program nor the second monetary zone, as currently constituted, have the required restraint mechanism. Although it can be argued that these organizations are currently inching closer to the required convergence standards, it is unlikely that the integration program is the cause of such convergence. In fact, as has already been argued, the adherence to the convergence criteria has been IMF/ World Bank induced. This is so since most of the countries in the second monetary zone are currently undergoing various spells of structural adjustment programs. In other words, the current level of adherence to fiscal and monetary discipline has been achieved mainly because the IMF serves as the agency of restraint. For most of these countries, it makes economic sense to adhere to IMF conditionality rather than risk facing sanctions from the body.

For the Francophone West African countries, the pegging of the currency to the Euro, with the support of France, gives France the authority to act as agency of restraint to the region. Francophone countries therefore have to choose between continued French assistance and pursuing monetary expansionist policies. So far, few former French colonies have dared to exit the CFA Franc Zone. The long-term relationships of the Francophone countries have been yielding dividends on other sectors of financial and economic cooperation. These countries now have a common Banking Commission which licenses and regulates the financial system across the region. Most of the Francophone West African countries are also signatories to the OHADA treaty. It is therefore no surprise that intra regional financial

<sup>42</sup> Masson, P. and Pattillo, C. (2001), Monetary Union in West Africa (ECOWAS): Is it Desirable and How Could it be Achieved? *International Monetary Fund Occasional Paper Number 204*, p. 25.

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movements and financial cooperation are much more advanced among WAEMU countries than among the member countries of WAMZ.

This perhaps explains why Ghana has been seriously considering synchronizing its business laws with those of the Francophone countries by becoming a signatory to the OHADA Treaty. This makes economic sense. As has already been mentioned, Ghana has no land borders with any of the members of the second monetary zone and is sandwiched by three Francophone states (Togo, Burkina Faso and Ivory Coast). Ghana is however not the only country in that situation. Niger, which is a landlocked country, is geographically proximate to Nigeria rather than the Francophone West African states. Gambia is also surrounded by Senegal. The above geographical disparities and divisions no doubt result in sub-optimal trade and economic relationships among the countries involved. An ECOWAS wide integration program therefore makes economic sense.

Ideally, one would have suggested the integration of Ghana into the UEMOA region as a starting point. Unfortunately, the current agreement France has with its EU partners, with respect to its monetary relationship with WAEMU countries is unlikely to permit this. According to the Chief of Service of the Franc Zone in the Bank of France- Mr. Emmanuel Carriere:

The admission of new members into the Franc Zone would be difficult if not impossible since it took France some time to convince its European partners that its relationship with the Franc Zone countries was only a budgetary issue and that the activities of these countries would not significantly affect the money supply of the Euro Zone and... the creation of a single monetary zone in ECOWAS.... would result in the extinction of the Franc Zone in West Africa.<sup>43</sup>

Given the above, it is difficult to see how any meaningful progress can be made on the ECOWAS integration project without the endorsement of France and, to some extent, the European Union. This is so because it is unlikely that the WAEMU countries will be willing to forfeit the current

<sup>43</sup> Quoted in WAMI News (Volume 1, Number 3, December 2001, p. 30).

arrangement with the EU for wider cooperation with non-WAEMU countries.

Although France has traditionally been uncomfortable with the size of Nigeria and its potential for dominating West Africa, recent developments may be changing all that. First of all, the passage of time has shown that the projected economic potential of Nigeria was rather too optimistic. Furthermore, the interest of France in Francophone West African region may be waning. This arguably is responsible for the recent social and political degeneration of the largest economic power in Francophone West Africa-Ivory Coast. Finally, recent developments in the European Union create genuine opportunities for ECOWAS-wide integration. This is especially so given the fact that the intra ECOWAS divide had its origins in European colonization. With the coming together of these European countries, their political and economic differences should begin to disappear, thus creating opportunities for ECOWAS-wide integration.

Interestingly, European Union member states have, in the past, greatly supported ECOWAS countries through various forms of aid. In fact the contributions of member countries, if aggregated, constitute the largest segment of aid to the West African region.<sup>44</sup> Poverty reduction and economic growth in Africa have often emerged as one of the main objectives of the EU international economic relations. Achieving this has however not been easy.<sup>45</sup> The EU has continuously balanced its commitment to the development of poor countries and the irreversible move towards economic openness and globalization. Although there are various preferential trade arrangements between the EU and West African countries, the expectation is that these will gradually give way to free trade.

<sup>44</sup> The World Bank (2000), *Can Africa Claim the 21<sup>st</sup> Century?* (Washington DC, The World Bank), p. 240.

<sup>45</sup> This is partly because the idea of aid has been politicized and used to serve other purposes. See, for instance, World Bank (2000, p. 238).

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Based on the above, it is not surprising that some development institutions including the World Bank and the African Development Bank have started advancing the concept of open regionalism.<sup>46</sup> The idea is that integration should not be seen as an end in itself. Rather, it should be seen as an effective vehicle for the integration of West Africa into the world economy.<sup>47</sup>

Some West African countries are however skeptical about this concept of open regionalism. They argue that it is based on the same principles as structural adjustment. Under various spells of IMF imposed structural adjustment programs, most ECOWAS member states have seen their economies shrink. This however does not tell the whole story. IMF has been traditionally invited when things go wrong in the economy. Prior to the adoption of SAPs most ECOWAS countries practiced import substitution, backward integration and protectionist policies. With the benefit of hindsight, we now know that such policies do not work. Furthermore, locking West Africa in to itself may well be an uneconomic venture. The geography of the region has been described thus:

<sup>46</sup> According to the African Development Bank, the principle of open regionalism entails: “progressive integration of the regional economies into the global economy through complementary unilateral and multilateral liberalization in parallel with the adoption and implementation of regional integrating initiatives. In the process countries will be encouraged to pursue integration measures consistent with rules-based world trading system and to undertake and/or continue to implement outward-oriented trade and exchange reforms under the stabilization and structural adjustment programs supported by other relevant development partners.... Given the apparent irreversibility and growing importance of globalization, open regionalism requires the creation of regional infrastructure, large integrated regional markets with economies of scale in production, credible policy environment to attract foreign and domestic investment, the adoption of new productivity enhancing technology leading to improvements in international competitiveness of the region’s industries. This process will not only increase the regional production base; it will also foster the creation of a large economic space for trade creation with dynamic regional effects. In addition, it will provide regional entrepreneurs the competitive environment for production and entry into the global export market.” See *African Development Report* (Abidjan, African Development Bank, 2000), p. 13.

<sup>47</sup> Quattara, A.D. (1999), *Regional Integration in Africa: An Important Step Toward Global Integration Paper Presented at the First Conference of Ministers of Economy and Finance of French Speaking Countries* (Monaco, April 14, 1999), p. 2.

West Africa is highly fragmented as a result of geographic, demographic, political and policy related reasons. The 236 million inhabitants are very unevenly distributed among countries, with Nigeria containing half the total population and several countries having less than a million people. There is no indigenous, widely used language for commerce, such as Swahili in Eastern Africa but rather three official European languages, still not understood by large segments of the population. The region is roughly one-third desert, one-third Sudano Sahelian, with rather irregular rainfall and one third humid and rather more favorable for agricultural development. Except in the urbanized areas along the Atlantic coast, population density is low. Nearly half of the area is formed of landlocked countries. Internal distances as well as distances to core markets (about 50 percent greater than in East Asia) are enormous and transport infrastructure networks are only partially interconnected between countries- since they had been originally conceived to serve the colonial interests rather than the region's, and they are very poorly maintained. Because of natural obstacles, political fragmentation, and inappropriate policies, national markets are tiny and regional markets remain undeveloped. As a result, infrastructure costs are among the highest in the world; electricity costs are on average 4.5 times higher than in the OECD countries and two times higher than in Latin America. The rates for international telephone calls are about 4 times higher than in OECD and 2.5 times higher than in Latin America, also on average.<sup>48</sup>

For the economic development of West Africa, therefore, the problem may not be with open regionalism. Rather, the problem may be with the internal factors that inhibit the competitiveness of the region. One such problem is the availability of a stable and convertible currency for the ECOWAS Member states.<sup>49</sup> Luckily, the French experiment with the Francophone West African states has shown that this problem is not insurmountable and that the potential costs on Western countries may not be material. Choosing an anchor currency and establishing an ECOWAS wide exchange rate mechanism will however be more problematic. There are, at present, disparities with respect to the Francophone approach and the WAMZ proposition. While the CFA franc has a fixed parity with the Euro, the WAMZ arrangement will be based on an exchange rate mechanism with a 15 percent fluctuation band and anchored on the US Dollar. Although most of the raw materials, which are the main export of West African countries, are quoted

<sup>48</sup> The World Bank (2001), Memorandum of the President of the International Development Association to the Executive Directors on a Regional Integration Assistance Strategy for West Africa, p. 2.

<sup>49</sup> See World Bank (2000, 2001) for an analysis of other constraining factors.

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in US Dollars<sup>50</sup>, the fact remains that most of African trade is with Europe.<sup>51</sup> Furthermore, West Africa is, by far, historically and culturally closer to Europe than the USA. European Union member states are also the largest aid donors to the sub-region. Alignment of the West African currency with the Euro would therefore be more appropriate. Maintenance of a fixed parity with the Euro will also be preferable to a fluctuation band. This is even more so especially given the fact that the monetary arrangement for the Francophone West Africa area has been tested while that for the WAMZ zone is still a proposition.<sup>52</sup> Funds currently wasted on unproductive ventures in the name of aid could well be diverted to help support the proposed fixed parity arrangement.<sup>53</sup> There is now a clear opportunity for the European Union to operationalize its usual advocacy of being interested in the economic development of West Africa by acting as an agency of restraint for ECOWAS countries. Although currency convertibility and stability will not automatically ensure economic growth in ECOWAS, it will be a convenient starting point. At the very least, it will help foster the creation of a large economic space, which will positively impact on the economic development of the region. It will also help to hasten the dismantling of the existing barriers to intra community trade and economic cooperation. For this arrangement to make long-term economic sense and lead to sustainable development for stakeholder West African countries, it must be seen not as an end in itself but as an essential step towards the ultimate goal

<sup>50</sup> Trade in raw materials is mainly invoiced in US dollars and to a lesser extent, the Pound Sterling. That is because the quotation of raw material prices on international markets are, in most cases, in US dollars or in Pounds Sterling. See Bekx, P. (1998), *The Implications of the Introduction of the Euro for non EU Countries*, Euro Papers Number 26, p. 8-9.

<sup>51</sup> See World Bank (1998), *African Development Indicators 1998/99* (Washington D.C., The World Bank), p. 122-136.

<sup>52</sup> "The membership of UEMOA countries in ECOWAS should, however, be a blessing in the development of a monetary union involving all countries in the sub region. The UEMOA experience is unique as it is not based on the traditional approaches to monetary integration. Its unique status as a common currency has been helped by the link between its currency- the CFA franc and the French franc, which guarantees its free convertibility into the French Franc [now Euro]" (ECOWAS, 2000, p.3).

<sup>53</sup> See World Bank, *World Development Report 2000/2001*, (Washington DC, The World Bank), p. 192.

of internalizing the monetary restraint mechanism in the West African sub-region. It is also unlikely that any monetary support scheme, which has no explicit timeframe, will be acceptable to the European Union.

## **VII.**

From the above, it is clear that an ECOWAS-wide monetary zone will be of benefit to all the countries in the West African sub region. It is however also clear that it would be difficult to achieve such a union without an agency of restraint mechanism. In fact, WAEMU, which is the only functioning monetary union in the sub region, exists mainly because the European Union, through France, provides such an agency of restraint mechanism. The Second Monetary Zone, championed by Nigeria and Ghana, is however yet to take off. Its December 2009 deadline for the operationalization of its currency, the Eco, has passed unceremoniously and no new date has been set. The absence of an agency of restraint mechanism is no doubt a major hindrance to the actualization of this project. The idea of a Second monetary Zone is thus a fast disappearing dream. The only viable alternative therefore is for the WAEMU to be expanded to bring on board members of the Second Monetary Zone. There will however be two major obstacles to this happening. First, most of the Anglophone West African countries will be reluctant to join a francophone organization because of their colonial heritage and sometimes, nationalistic pride. The second reason is the fact that France (and the European Union), which acts as the agency of restraint for WAEMU, may be reluctant to expand the current membership of WAEMU.

The author believes that the second problem is not insurmountable. It will, for instance, not be difficult to convince the European Union that the political and economic developments in Europe have now created a unique opportunity for it to help unite a region it helped to divide. The colonial attachment of some European Union countries towards the region arguably explains the fact that Europe remains the greatest aid donor to West Africa. Eradicating poverty in Africa also features regularly on the agenda of the

## The European Union and Monetary Integration in West Africa

European Union presidency. At the economic level, such a West African-wide monetary union guaranteed by Europe will also enhance Europe's trade and investment relationship with the region.

The obstacles relating to colonial heritage and nationalistic pride will also not be difficult to surmount. The very fact that all the European countries that participated in the partitioning of the West African sub region have now united under the European Union has blunted western interests in ensuring the continued division of the region. The issue of nationalistic pride will no doubt vary from country to country. The first step towards achieving an ECOWAS-wide monetary integration arrangement would be for the European Union to withdraw its resistance towards the expansion of WAEMU. There must however be strict and clear rules guiding the admission of new members into WAEMU and only countries that meet the set convergence criteria should be admitted. There should also be explicit penalties for default.<sup>54</sup> This will, at the very least, ensure that willing new entrants will take decisions that could impact on their membership or suspension from the union more seriously. Furthermore, to be acceptable to all the stakeholders, Europe cannot be expected to act as an agency of restraint for an expanded WAEMU for an infinite period. The ultimate goal must be to internalize the restraint mechanisms in the sub-region. It is, for instance, easier for the European Union to agree to act as an agency of restraint to an expanded WAEMU for an agreed period of time – say, 25 years in the first instance. There is also no reason why the Francophone West African countries will not consent to the expansion of WAEMU. This will at the very least help integrate their economies with those of their Anglophone neighbors without necessarily upsetting their economic relationship with Europe.

<sup>54</sup> “Regional integration is no substitute for reforming the nation-state across Africa. Successful regional integration requires a solid preparation of each member state of a regional grouping.” See Kühnhardt, L. (2008), African Regional Integration and the Role of the European Union, *Zentrum für Europäische Integrationsforschung (ZEI) Discussion Paper C184* (Bonn, Rheinische Friedrich-Wilhelms-Universität), p. 9.

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Once a framework for admitting new members into WAEMU has been put in place, it is likely that some WAMZ member countries will apply to join. Guinea, which was traditionally a Francophone country before it was ostracized in 1958, is one such country. Its current interest in WAMZ, whose takeoff date has since passed unceremoniously, is clearly because it has no choice. Liberia, which was not a British colony, is also another candidate. Without British interference, it is also likely that Ghana, Sierra Leone and Gambia, which are all encircled by Francophone countries, will all consider joining WAEMU. For the above West African countries, membership of an expanded WAEMU will help force them to adhere to macroeconomic policy discipline and ensure monetary stability and currency convertibility. The attendant trade and investment benefits will no doubt be immense. It is however unlikely that Nigeria will join such a Union, at least in the short run. Aside from its colonial heritage, Nigeria has over the years, partly due to its oil wealth and sheer size, acquired enormous nationalistic pride that will sabotage its joining WAEMU. This however should not be seen as a hindrance to the above proposal. This is because, in the future, it would be easier to integrate Nigeria and an expanded WAEMU into a single monetary zone than the current approach of trying to achieve an increasingly difficult Second Monetary Zone, which will then be integrated with WAEMU.



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