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ECOWAS COMMON CURRENCY POSTPONED AGAIN: WILL THE CURRENCY EVER BE LAUNCHED?

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ABSTRACT: *The plan to introduce a common currency in West Africa has been difficult to achieve. Since this plan was agreed upon by member countries, it has faced more than 5 postponements, and this has made scholars and experts question whether the common currency will ever be introduced in the sub-region. This question comes from the postponement of the launch of the common currency to 2027. Before this announcement, the common currency was confronted with various issues and challenges (convergence criteria, fear of loss of fiscal sovereignty, CFA franc zone, and France hegemonic pressure). ECOWAS blamed the COVID-19 pandemic for the recent postponement of the date to 2027. This paper therefore seeks to interrogate the implication of the COVID-19 pandemic on the common currency process coupled with the already existing challenges and issues that had over the years confronted the common currency. The study relied essentially on qualitative data predicated on secondary data. The study adopted the theory of Optimum Currency Area. The paper revealed that the inability of ECOWAS to overcome the issues facing the common currency caused the postponements. The study recommended, amongst other things, that the issues and challenges should be addressed by ECOWAS, the process of the common currency should not be rushed, and the eurozone crisis should serve as a lesson to ECOWAS.*

KEYWORDS: Eco, ECOWAS, Economy, Integration, Covid19, Common Currency, Regionalism.

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INTRODUCTION

The plan to introduce a common currency in West Africa started in the early 2000s. A common currency will ease hurdles to doing business and trade increase across the region. As a result, the common currency agenda, centered on the name "eco" has been pursued by countries in West Africa. Introducing a common ECOWAS currency will boost economic activity and economic upliftment in the sub-region. In addition, it would encourage monetary advancement in West Africa and eliminate quotas and tariffs on imports and export between member states, abolishing obstacles to free movement. Monetary integration is crucial to the connection between countries in the global system in terms of the economy because it resolves issues of currency plurality and exchange rate that in most cases hinder business flow between countries (Saka, Onafowokan & Adebayo, 2015). Harmonizing economic and monetary policies, liberalization of trade in the sub-region, supervising members' balance of payments, and offering the region a better instrument at the world's collective bargaining table are some of the things a common currency in West Africa is envisaged to harmonize (Ofori-Adebrese, 2006).

Since the announcement of the plan to introduce a common currency in West Africa, ECOWAS has found it difficult to actualize this plan. There have been so many postponements of dates set for the introduction of the common currency. The first target of ECOWAS was to launch the currency in 2003, but it was postponed to 2005. It equally witnessed another postponement to 2009, 2015, and 2020. The dates came and passed without ECOWAS launching the common currency. The reason for the continuous postponements is a result of ECOWAS's inability to meet the conditions set for the introduction of the common currency, consequently posing a challenge to the common currency process. The inability to meet the criteria set for convergence has proved to be a major challenge. Unrealistic deadlines and over-ambitious targets are also issues. Other challenges include the fear of loss of fiscal sovereignty of the economic giants and having to fall in line with regional policy, exchange rate mechanisms, the division between the Anglophone and Francophone West African states, political instability, and lack of political will. To introduce a common currency, ECOWAS will have to dislodge the CFA franc that is already in existence. The CFA franc and its connection with France have been a critical issue frustrating the introduction of a common currency in West Africa. The recent eurozone crisis has presented the need for the sub-region to approach the common currency process with a certain level of caution (Bakoup & Ndoye, 2016). This was reinforced by the recent economic development in Europe, most especially the sovereign debt crisis in Europe and the impact it has had on the single currency (the euro) in Europe (Setsofia, Xuejun & Cheng, 2020).

ECOWAS had planned to introduce the common currency in 2020, but just like in previous dates, the 2020 date came and passed without the common currency seeing the light of the day. The inability of ECOWAS to surmount the challenges facing this project has continuously forced the bloc to keep shifting the targeted dates. Recently, the 15-member countries of the Economic Community of West African States (ECOWAS) announced 2027 as the new date for the introduction of the single currency, the "eco". This was announced by Mr. Jean-Claude Brou, president of ECOWAS.

The continuous shifting of dates set for the introduction of the common currency is a result of ECOWAS's inability to tackle the issues facing the monetary unification process and implement the conditions set. ECOWAS had shifted the launching of the common currency

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from 2015 to 2020 to meet the conditions it set for member countries and tackle the challenges facing the process. During this period, the COVID-19 pandemic broke out and impacted the economies of countries all over the world. It interrupted the lives of people globally. The pandemic added new problems to the existing ones. It was in response to the havoc caused by the COVID-19 pandemic that the recent postponement happened. The bloc, led by its president, cited the COVID-19 pandemic as the major reason for the recent postponement and the subsequent shifting of the date to 2027. The COVID-19 pandemic and other political issues have added to existing problems facing the bloc and its effort towards currency unification in the sub-region. On this premise, this paper is set out to examine the recent postponement of the date set for the introduction of the common currency, taking into account the new dimension caused by the pandemic and the existing problems.

Theoretical Framework

Facts show that convergence among trading countries is promoted by economic integration. Monetary integration is part of economic integration and it is expected to improve transactions and increase benefits that accrue from trade. However, nations find it difficult to achieve effective economic integration due to differences in economic structures, financial liberalization, and trading systems. The attainment of an Optimum Currency Area is one of the conditions to be met by member countries before currency integration (Yuceol, 2006). This paper will rely on the Optimum Currency Area theory. Yuceol (2006) infers that the main element of achieving monetary union is the attainment of an optimum currency area (OCA) by the member countries. The theory postulates that it is optimally possible to use a common currency if the countries are exposed to similar symmetric shocks and business cycles or they possess mechanisms for the absorption of similar asymmetric shocks. The theory of optimum currency area (OCA) was originally propounded by Mundell (1961). His seminar paper gave room for the use of the theory of optimum currency area in the discussion of issues that concern monetary union. In his article, ‘A theory of Optimum Currency Area’, he interprets it as an area with internal factor mobility and external factor immobility. That is to say that when there exists a free movement of capital and labor in a particular region, the region could be called an optimum currency area.

The optimum currency area aims to describe the ideal factors that need to be in existence for countries to embark on currency unification. It helps to ascertain the readiness of a particular region to form a currency union. According to Mundell, it would be good to form a currency if shocks affecting countries are similar. In a situation whereby there exists an asymmetric or dissimilar response to shocks to countries in the union, an overall response of a union would prove costly for some countries in the union. Much of the theory of Mundell focused on four main criteria. As observed by Frankel and Rose (1998), the criteria are the nature and magnitude of shocks, the degree of labor mobility, the extent of trade, and fiscal transfers.

Going by the OCA theory, symmetric shocks are likely to be experienced by countries that produce and export the same commodities. West African countries produce different levels of shocks based on what they produce and export. Labor mobility is an important factor in a monetary union and this determines its success. It suggests that workers should be able to physically travel across a region. The cost of forming a monetary union is minimized when the degree of mobility of labor is high (Mundell, 1996). There must be no obstacle to free movement. The more countries trade with one another, the greater their chance of benefiting from a monetary union. Unfortunately, West African countries are lacking in this aspect. In the

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area of labor mobility, there exist barriers to free movement in West Africa caused by factors such as immigration restrictions, and language and cultural barriers. When it comes to the extent of trade, most of the countries in ECOWAS trade with outside countries, and trade among West African countries is very low.

My decision to use the optimum currency area framework for this paper is based on its explanatory ability of common currency issues. It enables me to establish the suitability of ECOWAS for a common currency and the conditions under which the sub-region qualifies to form a monetary union.

ECOWAS Common Currency: Issues and Challenges

The quest for a common currency in West Africa started in the early 2000s, and since then, it has been challenging to achieve. This has led to so many delays and postponements of dates set for the introduction of the "eco", the most recent being the shifting of the date to 2027. Monetary unification has been achieved in some parts of the world like Europe, and it led to the emergence of the euro currency. The common currency process in the sub-region has been marred by issues and challenges. Loss of control over monetary and exchange rate guidelines by member countries ranks among the main hindrances to monetary unification in the sub-region (Itsede, 2001). Additionally, the flexibility of nations in the integration zone to control monetary supply, devalue and revalue exchange rate is lost. In the same vein, Saka, Onafowokan, and Adebayo (2015) posit that the main problem of a monetary union is the member countries' loss of capacity to manipulate the value of their respective currencies and to conduct an independent monetary policy such as devaluing their currencies and adjusting their interest rate as a tool for macroeconomic adjustment. Forming a monetary union would lead to national authorities like central banks losing their independence or authority to a supranational body. Leaders of states in the community are reluctant to give up their monetary policy, sovereignty, and control over their central banks. Sharing a similar view is Mordi (2002), who states that when a country lets go of its national currency, it also lets go of an essential instrument of economic policy. As a result of this, it loses the ability to conduct a national monetary policy. The implication is that by joining a monetary union, the ability to change the price of its currency, either by devaluation or revaluation, is lost (Mordi, 2002). Countries lose their sovereignty and capacity to choose the best ways to resolve complications (Cohen, 1998). In a currency union, there is a propensity for the independence of macroeconomic policy of member countries to be reduced. Not only that they would lose control over the interest rate, but they would also lose control of exchange rate policy or their country's monetary policy (Ofori-Adebrese, 2006).

The CFA franc and its connection with France is another critical issue. The CFA franc zone comprises French-speaking countries of West/Central Africa and it came into existence as a result of a union of French-colonized countries in Africa (Fwangkwal, 2014). The CFA franc is critical to the common currency. Bakoup and Ndoye (2016) state that the common currency, if introduced, would replace all existing currencies within the sub-region. The CFA franc is tied to the euro and is secured under the French treasury. France shares very close ties with her former colonies in West Africa, even after they gained independence in the early 1960s. France has been able to take advantage of the CFA franc and, as a result, it has over the years penetrated and perpetuated her influence and direct say in the internal political and economic affairs of the CFA countries. According to Pigeaud and Sylla (2018), the emergence of the CFA franc favored the restoration of very advantageous commercial relations for France. According to

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Chafer (2005), the CFA franc contributes to sustaining France's influence in diplomatic affairs in gathering like the United Nations. The CFA franc zone poses a severe hindrance to the common currency process. Introducing a common currency means that the countries in the sub-region that are currently using the CFA franc will have to be convinced to abandon their existing currency. They have been able to achieve relative success and prosperity from their unified currency (CFA franc). ECOWAS must first of all convince them that the eco will be of greater benefit to them than the CFA franc. Introducing a common currency in the sub-region means France's direct influence in West Africa will be curtailed. France, on its part, is not making it easy for the monetary unification process bearing in mind that a successful introduction of the eco will likely end her long and continued influence in West Africa. Hence, France would not want this plan to be realized.

Due to unrealistic deadlines and overambitious targets of ECOWAS, member countries usually struggle to meet the criteria set for convergence. The issue of currency unification is a complex matter; it needs time to be accomplished. On the contrary, the efforts of ECOWAS seem rushed, thereby making it difficult for countries in the bloc to meet the convergence criteria. Saka, Onafowokan, and Adebayo (2005) noted that some ECOWAS countries met some of the criteria for convergence, while some did not. The set criteria are classified into four primary criteria and six secondary criteria:

Primary Criteria

1. Budget deficit/GDP ratio (exchange grants) less than or equal to 4%
2. Inflation rate less than or equal to 5%
3. Central bank financing of budget deficit not more than 10% of the previous year’s tax revenue.
4. Gross external reserves (GER) that can provide import cover for at least three months.

Secondary Criteria

1. Prohibition of new arrears and liquidation of all outstanding ones.
2. Tax receipts/GDP ratio greater than or equal to 20%.
3. Salary mass/total tax receipts ratio less than or equal to 35%.
4. Public investments financed from internal resources/tax receipts ratio greater than or equal to 20%.
5. Positive real interest rates.
6. Real exchange rate (RER) stability.

Meeting the above convergence criteria poses a huge challenge for the economies of the sub-region. While some countries in the sub-region may be able to meet the criteria, others may not, hence the reason for so many delays and postponements.

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Setsofia, Xuejun, and Cheng (2020), in their work on currency unification, opined that ECOWAS does not have the environment suitable for a common currency. This according to them is a result of the non-symmetrical nature of the supply pattern, demand, and disruption of currency between nations within West Africa. The degrees of shocks among West African countries vary; they export different primary products and as a result are likely to encounter different kinds of shocks at different times. Sharing a similar view is Sampawende (2011), who explained that countries in ECOWAS are differently specialized in diverse main products, which is a major problem for the common currency initiative. There must be symmetric shocks for a monetary union to be successful; this is according to the optimum currency theory. Countries in a monetary union must adopt the same monetary policy; if they face different shocks, such a monetary policy may inevitably prove inappropriate (Mordi, 2002).

Political issues can make or mar the formation of a monetary union. Every regional organization regardless of its purpose is political. It is political actions that bring them into being. West African countries are often plagued by instability that in most cases hinders integration efforts. For ECOWAS to achieve its plan of introducing a common currency in the sub-region, member countries have to achieve stability in their polity. The instability in the sub-region distracts them from meeting objectives to foster monetary integration. According to Goshit (2013), the West African sub-region has been marred by political, ethnic, and religious crises. ECOWAS has channeled her energy and resources to settling political crises within the bloc; countries like Liberia, Cape Verde, Sierra Leone, and Cote d'Ivoire have witnessed wars (Yusuf, Ahmad & Wali, 2018). Boko Haram insurgency and ethnic conflicts in Nigeria and Mali have already assumed a fearful magnitude within West Africa (Chileh, 2013). ECOWAS member countries have not shown sufficient will and commitment politically to make a common currency in West Africa a reality. Yusuf, Ahmad, and Wali (2018), stressing this view, note that a lack of political will to enforce monetary integration is an inherent feature of the character of ECOWAS member countries.

The Postponement of the Launch of ECOWAS Common Currency to 2027: The Role of the COVID-19 Pandemic

The president of the Economic Community of West African States (ECOWAS), Mr. Jean-Claude Brou announced that the community has resumed convergence to launch the common currency "eco" in 2027 (The Guardian Newspaper, 2022). He blamed the COVID-19 pandemic for stalling the process of the common currency, stating the need for countries to tackle the pandemic. ECOWAS had previously cited the inability to meet the convergence criteria, fear of loss of fiscal sovereignty, the CFA franc and the division between Anglophone and Francophone West African countries, and political instability, among others, as the challenges that necessitated the shifting of dates for the introduction of the common currency. However, in trying to mitigate these challenges, ECOWAS has been met with new challenges due to recent events. The COVID-19 pandemic has presented further challenges to West Africa's planned currency. What prompted ECOWAS leaders to suspend the convergence pact for 2020–2021 was the increasing budget deficits. As a result, the introduction of the common currency was pushed from 2020 to 2027.

All over the world, countries and economies witnessed shock waves as a result of the COVID-19 pandemic (Leach, MacGregor, Scoones & Wilkinson, 2020). The impacts of the COVID-19 pandemic are still being felt to date. Whether in the area of finance, employment, trade, health, etc., the economies of the countries in the sub-region have been greatly affected by the

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pandemic. The developmental efforts of countries are greatly being undone by COVID-19. As defined by Leach, MacGregor, Scoones, and Wilkinson (2020), development is progressive social, economic, and political change, but it is rapidly being undone as COVID-19 threatens collective futures. The economic risk of the pandemic is very high. When one considers the fact that the pandemic has wide-reaching and global impacts, the shock will likely cause deep structural changes in the economies of the countries under the ECOWAS umbrella. The disasters caused by the COVID-19 pandemic could last for an extended period. As the United Nations Disaster Risk Reduction Office defined it, a disaster is "a serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability, and capacity, leading to one or more of the following: human, material, economic and environmental losses, and impacts" (UNDRR, 2022). Going by this, the effect of the COVID-19 pandemic may affect or test ECOWAS member countries' ability to meet the targets set before the pandemic.

The need for countries in the sub-region to tackle the pandemic led to the recent postponement. The outbreak of COVID-19 stalled the common currency process. ECOWAS president stated the need for the convergence criteria to be thorough so that once implemented, it will be of benefit to the citizens of the sub-region. The president in his report opined that they had to suspend the launch of the currency to be able to create conditions that will allow them to stabilize the economies. As a result, they go back to the common currency in 2027 (Leadership Newspaper, 2022). Priority should be given to the convergence criteria to be in a favorable condition to launch the common currency. The common currency should serve the needs of the people and the people should have trust and confidence in it. Rushing the common currency as stated by the ECOWAS president could cause the currency to encounter a crisis; every aspect of it must be discussed and the agreement reached, making it implementable (Leadership Newspaper, 2022).

Lessons from the Eurozone Crisis

The success of the European Monetary Union (EMU) and the emergence of the euro as the common currency of the European Union informed ECOWAS's decision to attempt to introduce a single currency similar to that of their European counterparts. In line with this, Ogbeidi (2010) inferred that the creation of the EU inspired the decision of ECOWAS leaders to pursue the idea of regional integration. The expectation of ECOWAS is for the common currency to be similar to the euro. However, first-world countries with large economies largely use the euro, still, it has faced several issues since it came into existence. The fact that the countries that would adopt the eco are not at a similar economic level to the European countries means that they may even face more challenges and difficulties. Bakoup and Ndoye (2016) note that the European sovereign debt crisis and its impact on the European single currency necessitated the need to put lessons from the eurozone crisis into consideration. The euro crisis has revived the discussion on the timeliness of a common currency in West Africa. Hing and Kunstein (2018) define the eurozone crisis as a "sovereign debt crisis, competitive crisis, banking crisis, crisis of political legitimacy or simply the euro crisis". Most euro area counties' fiscal conditions became too bad, which led to a bail-out option for Ireland and a Troika program for Greece. Even leading countries like France and Germany experienced a debt to GDP ratio of over 60 percent. There was a discouraging growth condition in the eurozone (Ashford, 2014).

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Goodhart (2017), highlighting the lessons that can be learned from the eurozone crisis, states that forming a currency union is not advisable if markets cannot be easily modified or rearranged. Bala (2016) stressing the need to consider the lessons from the eurozone, notes that despite the success recorded in the eurozone, it is deeply caged in a “sovereign debt crisis” that has exposed the underlying issues and shortcomings in the eurozone configuration. According to Mogaji (2018), the eurozone crisis is systematic and caused by the defects in the design, construction, and implementation of the European Monetary Union project. In the formative stage of the European Monetary Union, they failed to put some essential components like a banking union that should accompany the monetary union and surveillance and regulatory process to guide against possible destabilizing effects of credit flows in place.

A unified currency is challenging for member countries that are highly different and do not qualify as an Optimum Currency Area (Mckinnon, 1963; Mundell, 1961). As a result, the first issue that EMU faced was the underlying differences in macroeconomic conditions among member nations. There are some lessons the sub-region can learn from the crisis in the eurozone as they pursue monetary unification. The European monetary integration model that ECOWAS is imitating is threatened by the eurozone crisis. Many lessons could be learned from the 19th and 20th centuries’ monetary unions, both from when they were formed and various problems that occurred after their formation (Nkwatoh, Abdullahi & Aliyu, 2019). The process of the common currency by ECOWAS should not be rushed. Looking at the circumstances in Europe, it may be a good idea to wait and see how the eurozone crisis is handled. This will give them enough time to do a proper analysis of the lessons. The Maastricht-type convergence guided the creation of the EMU which is similar to ECOWAS convergence criteria. Some smaller countries under the EMU umbrella exploited the macroeconomic indices. ECOWAS countries therefore should meet the convergence criteria without cutting corners, to prevent problems from occurring in the future. Agypong (2012) corroborates this view and states that the exploitation of microeconomic indices by member countries to meet the strict convergence criteria is one of the dangers of a common currency. National sovereignty makes it difficult if not impossible to monitor this manipulation.

As noted by Mckinnon (1963), it is challenging to adopt a single monetary policy for a highly differential set of member countries. The first issue faced by EMU was the underlying disparities in macroeconomic conditions among the member countries. The ECOWAS must pursue similar economic and financial policies. If the process of economies, politics, and finance is not the same, the bloc will probably become segmented instead of becoming integrated. ECOWAS should learn from the euro crisis by avoiding excessive borrowing and irresponsibility in the area of finance. This will minimize the risk of member countries adding more to their budget deficits, thereby reducing any eventual debt crisis—balance-of-payment crisis—which caused the eurozone crisis.

CONCLUSION

ECOWAS has continued to fail in its quest to introduce a common currency in West Africa; this is as a result of the inability of the bloc to meet the criteria set for convergence, hence the continuous shifting of the launch of the common currency. More so, the failure was revealed in the inability of ECOWAS to introduce the common currency in 2003, 2005, 2009, 2015, 2020, and 2022. The common currency process has been faced with issues and challenges such

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as the fear of loss of fiscal sovereignty, the division between Anglophone and Francophone West African countries, political instability, France's hegemonic pressures on the monetary unification process, and the recent COVID-19 pandemic.

The eurozone crisis added to the issues and challenges facing ECOWAS's common currency process. The Eurozone crisis presented the sub-region with some critical lessons as they attempt to form a monetary union. The European monetary integration has been threatened by the crisis in the eurozone. It has revived the discussion on the timeliness of a common currency in West Africa.

The economies of countries in West Africa have felt the impact of the COVID-19 pandemic. It equally spilled over to the common currency plan. The pandemic caused deep structural changes in the economies of the countries in the bloc. The challenge of ECOWAS common currency has been broadened; hence, the impact of the COVID-19 pandemic on the actualization of the common currency cannot be overlooked. It has subsequently stalled the monetary unification process.

The paper recommends that, as a matter of fact, ECOWAS should intensify its efforts at tackling the issues and challenges facing the proposed common currency. Similarly, ECOWAS should ensure that member countries meet the convergence criteria without cutting corners or exploiting the microeconomic indices to prevent problems from occurring in the future. Again, the process of the common currency should not be rushed. Member countries should be given ample time to work fervently towards fulfilling the conditions set, to ensure stability. To realize the plan of a common currency, strong and lasting political will is important to tackle the challenges faced by the sub-region. This means that there should be real political commitment aimed at translating their proposals into action by coordinating and pursuing policies targeted at meeting the agreed criteria. Lessons should be learnt from the eurozone crisis. ECOWAS expects the single currency to be similar to the euro; despite the euro being used primarily by developed countries, it has still faced many challenges. This should therefore serve as a lesson to ECOWAS because the countries that will adopt the eco are not at the same level economically as the Europeans and may face even more challenges and difficulties.

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