Why Institutions Matter for Eco Currency

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Abstract

This paper analyses the feasibility of Eco currency to be introduced in fifteen West African states based on political, legal, social, and cultural factors. It aims to examine the core institutions underpinning the creation of the Eco currency and how they can best be designed to achieve the objectives of the single currency. The paper utilises a normative approach to analyse the institutions of the Economic Community of West African States (ECOWAS) to decipher the strengths of these institutions in creating and sustaining the single currency. Most studies on Eco currency have analysed the feasibility of Eco based on economic considerations. While economic factors are pertinent to creating a single currency, this paper highlights the importance of effective political, legal, and socio-cultural institutions to harness economic considerations for the common currency to be successful launched. This paper postulates that only effective and well-designed institutions can lead to a successful launch of the Eco currency.

Keywords

currency unification – institutions – ECOWAS – Eco currency

1 Introduction

Economic Community of West African States (ECOWAS) is in the process of establishing a single Eco currency. Much has been written on economic considerations and the benefits of the single currency (Nnanna, 2004; Ofori-Abebrese,
These benefits are achievable if there is a robust institutional framework geared towards the objectives of the single currency. Currently, the Eco currency is at a crossroad, with the possibility of having two Eco currencies in ECOWAS as the two monetary zones of the region; the West African Economic and Monetary Union (WAEMU) and the West African Monetary Zone (WAMZ) have divergent plans for the single currency (Ntongho, 2022). This is partly because of the different levels of monetary sovereignty and history between French speaking WAEMU member states who currently use the CFA Franc (CFAF) and WAMZ states who each have their respective currencies.2 WAMZ states rejected the Eco announced by Alassane Ouattara of Ivory Coast and Emmanuel Macron in December 2019, as there is a likelihood of capture of the currency by France.

In addition to the common goal of economic development, respective member states have individual goals for the single currency. For the eight WAEMU states, monetary independence is one of their objectives for a unified currency as they seek to break away from French domination. Conversely, Nigeria is pursuing an active role in driving forward development in the region and in Africa. Through a single currency, Nigeria will have greater influence in the region. If there is dominance flowing from the larger economies like Nigeria and Ghana, would this still be beneficial to CFAF countries and enable them to achieve the currency sovereignty that they seek?

Furthermore, cultural heterogeneity of the two monetary zones is evident not only in the fact that the two zones speak different languages, but they equally differ in terms of legal systems, traditions, and political institutions. For instance, WAEMU states made up of mostly Francophone countries except for Guinea-Bissau are more centralised with diluted economic sovereignty due to excessive French influence, while English-speaking (except for Guinea-Conakry) WAMZ states are more autonomous and economically independent (Mazrui, 2019). WAEMU states also depend on France for the convertibility and stability of the CFAF currency currently in use by these states. On the contrary, WAMZ states take immense pride in their respective individual currencies as they enjoy greater monetary sovereignty. As a result, there are divergences in political, legal, and socio-cultural orientation. Reconciling the different orientations of ECOWAS states is proving difficult and has raised

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1 CFA stands for Communauté financière d’Afrique or African Financial Community. Formerly the CFA stood for Colonies Françaises d’Afrique of French Colonies of Africa.

2 The eight WAEMU states are: Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo. WAMZ consist of six states: Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone. Cape Verde belongs to none of the above zones.
numerous questions that remain unanswered. Without answers to these questions, the progress of Eco currency may be delayed beyond 2027.

This paper answers some of these questions on monetary sovereignty, regulatory mechanisms, and cultural divergence of member states by analysing the political, legal, and socio-cultural institutions underpinning the Eco currency. Whereas economic and monetary factors are pertinent for a successful creation of a single currency and have been extensively researched, politico-legal and socio-cultural factors are also pivotal for the success of the single currency.

For a comprehensive analysis of the above issues, the paper is structured into five sections. The introduction has laid out the main issues that will be examined in section 2 on the conceptual framework. Section 3 would apply the conceptual framework to ECOWAS institutions, while section 4 would address the feasibility of Eco based on ECOWAS monetary institutions. The final section comments and concludes.

2 Conceptual Framework

Institutional arrangements of a monetary union greatly influence the stability and success of a common currency (Romer & Romer, 1997). Independence and transparency of the central bank in selecting its governors, choosing its legal system, and deciding regulatory policies such as banking supervision and reserve requirements have a strong correlation with inflation (Romer & Romer, 1997). As a result, several scholars have argued that monetary policy should not be too particular as institutions are equally as important (Persson & Tabellini, 1993). Politico-legal and socio-cultural institutions are analysed in this section as the focus of the conceptual framework.

2.1 Politico-legal Institutions

Money and politics are intertwined and separating the two is almost impossible. Thus, in monetary integration, politics amongst states would inevitably be an important factor. Therefore, the most efficient monetary policy may not be achieved due to the superior political strength of one nation with more influence over the others. The stronger state that can make use of its superior financial position to lend and hold money would use it as a weapon to control the weaker states (Kirchner, 2003). For instance, global monetary policy influenced by IMF and the World Bank is based on US ideology rather than global economic policy (Calomiris, 2000; Woods, 2003). In the same vein, states in a monetary union generally pursue their narrow interests (Kirshner, 2003). For this reason, commitment to monetary policy is fraught with obstacles as
states are wary of shedding their sovereign over monetary policy to another state. For instance, monetary autonomy was a strong factor in the Baltic states’ disintegration from the Russian ruble after the collapse of the Soviet Union (Tsygankov, 2002; Dabrowski, 1997).

Influence on monetary integration can be minimised in several ways. Firstly, states abide by set rules and are precommitted to a completely open ex-ante strategy and building a good reputation for obeying these rules even with limited commitment (Havrilesky, 1994). This would alleviate fear of adverse treatment by smaller member states. In Europe, smaller states have complained of discrimination by larger states in the application of the criteria for ascension to the euro. Instances could be seen when Italy, Belgium, and Greece were allowed to become members of the euro though they did not meet the 60% public debt to GDP ratio prescribed by the treaty of Maastricht (Johnson, 2008). Lithuania on the other hand had felt hard done by when the EU refused its membership of the euro in 2007 on the ground that it did not meet the inflation criteria based on the strict interpretation of the Maastricht treaty (Johnson, 2008).

To ensure effective bargaining to enhance commitment, it is argued that effective leadership or hegemony by a powerful state is necessary (Gilpin, 2016). While effective leadership is necessary for the success of a monetary union as evident in Europe, how such leadership and its effectiveness is perceived, is another issue as the hegemonic state may exploit its superior position to push through its own agenda to the detriment of the other states (Walter, 1993). Scholars have argued that the euro provided Germany with a disproportionate power of decision-making to the detriment of the smaller nations thus propagating German banking style and in effect providing Germany with a veto power (Schild, 2020).

It is undisputed that a monetary union would be more beneficial to one country than another as the euro experience indicates. Germany is considered the overall winner of the euro as euro institutions such as the European Central Bank are tailored on German Bundesbank and the euro provides Germany with economic power in Europe. France like Germany also has a disproportionate influence on decision-making and plays a leading role in influencing decisions (Schild, 2020). Precommitment to set rules by member states is pertinent in a successful union to minimise political influence and unequal treatment.

Secondly, political influence in decision-making can be minimised through an independent and transparent community central bank. The community central bank is the institution with most power to steer monetary policy based on expert knowledge rather than politics. For this reason, great importance is placed on an independent community bank to promote accountability and
credibility of the banking system as it is alienated from politic (Kempf, 2022). However, transparency of the central bank can be an anomaly as some level of secrecy is required for reforms to have real effect (Havrilesky, 1994). Control of inflation, unemployment, growth rate, interest, and exchange rates, cannot be achieved without some secrecy and surprises (Havrilesky, 1994). Since some level of secrecy is necessary for community bank policies to be effective, Tucker strongly argues that legislation and practices of the community central bank should reflect the political views of the community for legitimacy and acceptance by the people. Legitimacy of the community bank is very important, especially when there is a crisis and doubts are cast by the population on monetary policies (Tucker, 2018).

One of the measures utilised by the eurozone to ensure independence and prevent political interference in the European Central Bank (ECB) is long term of office for members of the executive board. Members of the executive board of the ECB are appointed for a non-renewable term of eight years, so they are not pressured to make political decisions or be wary of being removed by politicians as per Article 11.2 of the ECB protocol.

The exchange rate regime is another area where countries can adopt one of several arrangements based on political considerations (Frieden, 2016). States can choose a floating exchange rate system where market forces decide the value of a currency. They can also choose to peg their currency to a foreign currency or have a common currency among states (Bernhard et al., 2002). When a country pegs its currency to a foreign currency, it is delegating some of its monetary autonomy to the foreign country and subjecting itself to the monetary rules of the foreign central bank (Bernhard et al., 2002).

A further politico-legal issue in monetary integration is the role of the reserve bank as the lender of last resort in banking crises and in the case of systemic risk and sovereign debt. The reserve bank in a monetary union provides assurance to the domestic banking system that in case of a panic where increased demand for high-powered money leads to runs on banks and threatens the banking system, the reserve bank would come to the rescue either by cash injection or by open market purchase (Bordo, 1990). While monetary authorities must lend in the face of panic to avoid systemic risk, there is often a penalty or conditions that should be met for a bailout. During the 2008 financial crisis, for instance, the European Central Bank threatened to suspend liquidity funding unless the Irish government bailout was supervised by EU (Steinbach, 2016). Similarly, Greece was forced to accept the EU surveillance programme after emergency liquidity assistance package was frozen by the European Central Bank. This is because bank failure can be caused by endogenous or exogenous factors. Endogenous factors can result from mismanagement, poor
judgement, fraud, dishonesty, or fiscal irresponsibility of certain states which scholars argue was the case in the Greek crisis (Lane, 2012). Exogenous factors result from changes in the overall price level due to inflation, deflation, or adverse changes in the prices of resources such as oil (Bordo, 1990).

Calomiris et al. outline five legal and institutional roles for central banks as lenders of last resort all of which they argue have some political undertone and are capable of being abused (Calomiris et al., 2016). The first role is that of creating sufficient liquidity which can be abused by the bank issuing non-legal tender bills or advance loans during a crisis which would increase its leverage. As the quantity of notes increases in the market the value would fall and the note will no longer be accepted. Secondly, during crisis period, monopoly over the issuing of liquidity can be used by the bank to maximise profit rather than to achieve social goals. Thirdly, central banks can impose exceptional measures in case of a crisis which would give them additional powers over monetary policy. Fourthly, as lenders of last resort, the central banks can unilaterally change the interest rate on loans to reflect market conditions. Finally, the requirements of lending standards in times of crisis may raise issues of favouritism. Claims of favouritism during a crisis can be avoided through the establishment of lending standards and strict application of them. Community central banks as lenders of last resort should be perceived to be effective, fair, and socially beneficial. As a result, some central banks are required to meet the criteria of effectiveness, prudence, and fairness (Calomiris et al., 2016).

2.2 Socio-cultural Institutions

Ideology about money is central to monetary policy and shape monetary reforms (Broz & Frieden, 2001). If economic, political, and legal institutions do not reflect the diverse cultures of respective states, they may lack legitimacy (Jost, 2018).

Culture as a channel of influence on economic policy is hard to prove, thus scholars have utilised three standard measures of channels, which are beliefs, values, and preferences (Guiso et al., 2006). A person’s belief, value and preference are shaped by language (Eugster et al., 2011), religion (Guiso et al., 2006) ethnicity and history or colonial past. These determinants are utilised because they remain static over a person’s lifetime or change very slowly and with a lot of difficulties unlike economic determinants which is influenced by attitudes towards uncertainty, inequality, and centralisation of authority (Jost, 2018). For instance, a person’s religion may determine his perception of trust, which would in turn have an impact on the level of confidence he has towards others, while negotiating a transaction or policy.
Language is a good representation of culture for two reasons: firstly, it transmits values, beliefs, attitudes, and norms from one generation to the next. Secondly, social interactions are vastly influenced by language (Jost, 2018). Thus, speaking the same language is an indication of a common culture.

With regards to religion, though a person may alter his religion very easily, people raised in a particular religion tend to exhibit similar beliefs and preferences (Guiso et al., 2008). There is a higher level of interpersonal trust in countries with the same religion (Guiso et al., 2009). Resistance to Turkey’s membership to the EU is argued by some scholars to be based largely on cultural grounds as Turkey is viewed to be too different from the other European countries because it is predominantly Muslim (Kirisci, 2008; Minkenberg et al., 2012). EU governments and citizens are wary of the effect Turkey would have on the rest of Europe made up of mostly Christian states (Gerhards & Hans, 2011; Hurd, 2006).

Ethnic background creates trust or mistrust in a people. As with other cultural traits, the values, and beliefs of an ethnic group change very slowly. People from an ethnic group of mistrust would carry the same lack of trust when negotiating in a monetary union. Research reveals that trust decreases with genetic distance between two countries (Guiso et al., 2009).

Money is also closely linked to time and space (current or past) (Tabellini, 2010). Monetary nationalism is an integral part of independence and statehood (Norkus, 2018). During colonialism and imperialism, subordinate states in Africa and USSR used the money of the superior states. After independence, these countries changed their currency to reflect their separate national identities. In Africa, except for the fifteen Francophone countries that still use the CFAF, other countries created their independent currencies. Similarly, after the dissolution of the Soviet Union, despite scepticism from the IMF, former soviet states were quick to establish their respective currencies as continuous use of the Russian ruble was perceived as a continuation of Russian control (Norkus, 2018). The currency to be used in Scotland if it attains independence is always an integral part of the debate on a sovereign Scotland (BBC, 2022).

In the Danish referendum of September 2000, the two most popular reasons advanced by those who voted against joining the euro were preserving Danish identity (33%) and lack of confidence in the EU (23%) (Bering, 2000). Therefore, trust and a shared identity are major elements in currency unification.

According to Landes, cultural factors such as thrift, hard work, tenacity, honesty, and tolerance are associated with economic growth. Whereas xenophobia, religious intolerance, corruption, and bureaucracy restrict growth
and development (Landes, 1998). Other relevant cultural attributes for monetary policy are embeddedness or autonomy, hierarchy or egalitarianism and mastery or harmony with nature (Licht et al., 2005). Countries that are more autonomous, egalitarian with higher levels of mastery and rank higher in the rule of law, are less corrupt and more democratically accountable (Schwartz, 2004). Hence, similarity in language, religion, ethnicity, and history increases trust and thus fosters economic cooperation.

In monetary unifications where there are many unknowns, and the cooperation is for an indeterminate period with imperfect market conditions and legal protection, interpersonal trust is pertinent (Guiso et al., 2006). Research has shown that a person who is trusting will exercise the same level of trustworthiness (Glaeser et al., 2000). For any monetary integration to be successful, interpersonal trust is a vital element as the central command cannot regulate and monitor all economic activities in member states. Besides, regulations are hardly complete. Observance of monetary policies would involve market data and analysis by respective states based on trust that the data are accurate. Culture therefore plays a key role in building trust in monetary integration.

3 Institutions of ECOWAS Monetary Integration

Fifteen West African states of ECOWAS have drafted and re-drafted the roadmap for a single currency. Initially, the launch of the currency was interrupted for economic reasons such as primary microeconomic convergence criteria not being met (Senzu, 2020). Most recently, in 2019, it was derailed for political reasons as the WEAMU CFAF states and non-CFAF WAMZ states, could not agree on the terms of the common currency. Unbeknown to the non-CFA member states, the Francophone CFAF members unilaterally decided to change the name of the CFAF currency to Eco with control over the Eco resting with the French treasury. This action by the CFAF states raised suspicion and mistrust among the non-CFA members on the direction of the single currency. Strong institutions can minimise conflict and restore trust amongst members. This section analyses how effectiveness institutions can prevent future discord and ensure fairness amongst member states.

3.1 Politico-legal Institutions of Eco Currency

Monetary policy is always political (Kirshner, 2003). This is more so when dealing with a coalition of states in monetary unification. In West Africa, monetary policy is more complex than elsewhere as foreign states and international financial institutions may have direct input due to the weak bargaining
position of these countries. In the case of the Eco currency, France is a major player in monetary policy because of several colonial treaties it signed with the eight WAEMU states after independence. For these countries, whose monetary policy is controlled by France, a unified Eco currency would result in greater monetary autonomy as they will no longer be in a subordinate position. On the contrary, the seven WAMZ states who each have their respective currencies would cede part of their monetary autonomy to ECOWAS.

Nigeria and Ghana as the conceptors of Eco and the strongest proponents of the single currency are expected to have greater impetus in negotiations because of their superior position and experience in monetary policy of the Naira and Cedi. Ghana’s Cedi is currently the third strongest and most stable African currency behind the Libyan and Tunisian Dinar. Nigeria has the fourth largest banking system in Africa based on aggregate tier 1 capital (Statista, 2023). As a result, hegemonic position of Nigeria and Ghana is inevitable and arguably justifiable. Thus, the main issue should be whether respective ECOWAS states are better off in the union or out of it rather than their position in the union. It is inevitable that there will be a hegemonic state as in the euro.

There is a possibility that hegemonic position of Nigeria and Ghana may be exercised in their favour, thus undermining the interest of the other countries. Core issues such as the appointment of members of the executive board of the community bank and the level of freedom of executive board to make financial decisions are the areas that states would seek to have the most influence. While Nigeria and Ghana have legitimate claims as hegemonic states, the process of selecting central bank governors must be fair and transparent. Precommitted rules should provide sufficient independence to the central bank and its governors. The difficulties lie in the fact that there is hardly complete independence of the central bank as states retain some level of control (Kempf, 2022). Purely dependent or independent central banks are rare (Bernhard et al., 2002). However, measures can be taken as in the case of the euro where lengthy term which is non-renewable ensures the independence of the executive board.

ECOWAS revised treaty of July 1993 entitled “money, finance and payment” regulates the administration of the Eco currency. Articles 51 and 52 designate for the establishment of the community central bank (CCB). The composition and remit of the CCB have not been stipulated as the bank has not been established, thus independence of the CCB cannot be assessed at this point.

One area where there is a likelihood of disagreement is the exchange regime, whether fixed or floating. While the CFAF of WAEMU states and the escudo of Cape Verde are pegged to the euro, the other currencies operate different exchange rate regimes. According to the IMF, Guinea and Nigeria operate on a stabilized arrangement with a monetary aggregate target. Liberia has
a different arrangement with the US dollar as exchange anchor. Sierra Leone and Gambia have other arrangements with a monetary aggregate target. Ghana operates on a floating exchange rate (Amato & Nubukpo, 2020).

The advantage of pegging a currency to a conservative foreign currency is that the foreign currency lends its reputation to the pegged currency (Giavazzi & Giovannini, 1989). It is argued that fixed regimes stabilise inflation expectations as fixing the exchange rate to a low inflation country restrict the conduct of domestic monetary policy, thus, leading to credibility of government's commitment to price stability (Bernhard et al., 2002). Price stability is therefore one of the benefits of CFAF being pegged to the euro. Though naira and cedi are equally stable currencies, there is no guarantee that Eco would enjoy the same level of stability if not pegged to the euro or another foreign currency. Thus far, there is no indication of WAEMU states' willingness to relinquish their ties with France, while the rest of the member states may resist a peg to the euro as they would rightly intend to consider the best exchange rate option for the single currency. Furthermore, if the single currency is pegged to the euro, it may be perceived as a direct involvement of France in the management of the single currency as the CFAF was initially pegged to the French Franc before France became a member of euro. France and Europe's involvement in the Eco currency may be resisted by WAMZ states especially Nigeria and Ghana.

Risk sharing may equally pose some difficulties without strong institutions since monetary integration is a form of risk sharing (Lăzăroiu, 2017). Debrun et al. (2005) argue that Nigeria's large economy will pose significant risk to the single currency if Nigeria experiences high fiscal distortion and needs assistance from the CCB. They argue that Nigeria's terms of trade differ from those of the other ECOWAS economies, therefore, average asymmetric shock in Nigeria would have lower or negative correlation compared to shock from other ECOWAS states. This in turn, would put pressure on the CCB and by implication the entire monetary zone. Rigorous accountability of domestic institutions and effective monitoring by ECOWAS institutions will be vital in alleviating concerns of fiscal distortion in large economies like Nigeria resulting to a financial crisis in the monetary region.

The CCB would eventually perform the role of lender of last resort in member states and replace the French treasury in WAEMU states. This may be seen as a risk by WAEMU states as France has provided financial assistance to these states in times of crisis.

ECOWAS member states would also need to navigate the political influence of France. Unlike WAMZ states with independent central banks, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) in WAEMU countries lacks independence as decisions require the approval of France (Amin, 2022). Thus,
WAMZ states might find it difficult to negotiate monetary policies if WAEMU states would seek the approval of France on key issues mindful of the fact that French interest is different from those of WAEMU states.

3.2 Socio-cultural Institutions of Eco Currency

The vision for monetary integration of ECOWAS is to promote West African identity (Amato & Nubukpo, 2020). To be able to promote West African identity, the region must first identify what comprises West African identity since it is varied and far between as this section illustrates.

The fifteen countries of ECOWAS comprise of three legal systems and linguistic zones. Nigeria, Ghana, Gambia, Sierra Leone, and Liberia are common law countries. Ivory Coast, Senegal, Togo, Mali, Niger, Benin, Burkina Faso, and Guinea apply the civil law. Cape Verde and Guinea-Bissau are Lusophone states. Apart from the above three legal systems, there are countless native laws and customs applicable in ECOWAS countries. The most common is the sharia law governing Hausa ethnic group present in almost all member states. The Hausa language is equally one of the most spoken local languages in ECOWAS in addition to the national languages of English, French and Portuguese.

As these states seek regional integration and global recognition, the expectation is for monetary reforms to be geared towards a unique West African identity based on a shared cultural heritage. However, as stated above, traditions and values are entrenched firmly into a system and change very slowly. Issues such as trust, corruption, business practices, and respect of laws are difficult to alter. How would ECOWAS achieve a monetary system that reflects West African identity?

Ethnicity and religion are not major social barriers to a monetary union in ECOWAS. There are common ethnic groups and religious practices amongst ECOWAS states because of their proximity to each other. Hausa tribe with similar ethnic practices and religion is an example.

Language and history through colonisation appear to be the strongest cultural divide and identity issue in ECOWAS. For instance, though ECOWAS countries operate a system of neopatrimonialism based on patron-client relationship which revolves strongly around giving and gaining of favour, in Anglophone WAMZ states, this practice is based on appeasing an elite or tribal base, who in turn lend their support to the leader to stay in power (Taylor & Williams, 2008). On the other hand, in Francophone WAEMU states, the patron-client relation extends beyond tribal and elite support to colonial support of France. Francophone countries seek to appease their French patron to gain their support to stay in power. As a result, Francophone states are behind in terms of personal identity and continue to accept an identity linked to their colonial master, while Anglophone states have developed their respective
individual identities. Nigeria and Ghana for example are more advanced in terms of promoting African identity in films, clothing, and lifestyle.

Another important difference between Francophone and Anglophone cultures that can impact negotiations of the single currency is the independence of decision-making and the ability to make decisions that reflect collective goals rather than individual goals. According to Hofstede’s individualism versus collective analysis, a group with high individualism is self-oriented towards individual autonomy, initiative, pleasure, security, and decision-making (Hofstede, 2011). On the other hand, a group with low individual autonomy is collectively oriented with emphasis on group decision-making, order, expertise, and support for the interest of a familial group (Hofstede, 2011; Egri et al., 2000).

Anglophone states like Nigeria, Ghana, and Liberia with their independent currencies possess individualistic culture. Individualistic culture of Anglophone states can be traced back to the system of indirect rule administered by the British. Indirect rule allowed Anglophone countries to govern themselves through their traditional rulers (Mamdani, 1996). On the other hand, Francophone ECOWAS states have for long maintained a collective culture with the CFAF currency. Collectivism in Francophone states can be traced to the system of assimilation used to govern French colonies. Lewis defines assimilation as “a uniformed set of rules in all colonies without taking into account differences in size, distance from France, social organisation, religious patterns, economic development etc” (Lewis, 1962: p. 131). Francophone countries have found it difficult to disentangle themselves from this system of assimilation and carve out their individual identity.

Universalism versus collectivism is further associated with trust (Egri et al., 2000). Collective societies trust those they are familiar with and exhibit a lack of trust towards persons outside their group, while universalism is associated with cultures that exhibit a high degree of trust (Egri et al., 2000). Lack of trust negatively impacts sociability and the ability to form new groups which prevents the development of regional organisations, institutional development, and international competition (Fukuyama, 1996). The unilateral announcement of WAEMU state of the change of CFAF to Eco without the knowledge of Anglophone states indicate their inability to work together for a collective goal.

4 Impact of Institutions on the Feasibility and Desirability of Eco Currency

Monetary union as a coalition of sovereign states is based on the desirability of the coalition by its members. The stability of the coalition would depend on
a given country’s desire to join a union and the extent to which the members accept each other (Kempf, 2022). The fifteen member states of ECOWAS deem it desirable to establish a single currency to foster trade and economic development, with a view to complete the creation of the single currency in 2027. The region stands to benefit in numerous ways if the Eco is successfully made legal tender in West Africa.

Politically, the region shall acquire a competitive edge over other regions in African. Populous Nigeria with the largest GDP in Africa is seeking ways to strengthen its hold in Africa. A single currency would achieve this objective not only for Nigeria but the entire monetary zone as Eco will be the most widely used currency in Africa. Moreover, if the Eco currency is successfully launched, the process of other neighbouring CFAF countries becoming members would be easier, thus the possibility of expanding the currency to the six neighbouring CFAF countries.

Economically, a single currency will put the region in a strong position to negotiate trade deals with the outside world as increased membership expands the financial market and the banking and financial sector of the currency area (Kempf, 2022). A monetary union would also mean lower transaction costs and exchange rate uncertainty.

Furthermore, control of a single currency by one institution will enhance economic integration. It is argued that even though CFAF countries use the same currency, they are not economically integrated for their benefit but rather for the benefit of France (Nubukpo et al., 2016). This argument is further strengthened by the fact that the CFAF used in the two monetary zones; the central African zone and the West African zone are not interchangeable. Thus, a single currency would better align trade and the financial sectors of ECOWAS.

Culturally, Eco currency will be a hallmark of African progress and development and an indication that African countries can work together and disentangle themselves from the shackles caused by decades of colonisation, neo-colonialism, and war. A successful launch of a single currency will be a source of pride and achievement for its people especially in Francophone Africa.

Despite the desire of all member states to form a single currency, some scholars have singled out Nigeria as a potential source of financial instability (Miles, 2017). Debrun et al. estimate that Nigeria’s terms of trade differ significantly from those of its neighbours as Nigeria is heavily dependent on crude oil (Debrun et al., 2005). They suggest that it would not be advantageous to the other ECOWAS states if Nigeria were to be part of the monetary union unless there are effective measures to contain Nigeria’s financial needs. However, Zouri (2021) posits that heterogeneity can bring opportunities for the
monetary union to specialise in areas in which they have a comparative advantage. For instance, Ivory Coast can specialise in cocoa, Mali in gold, Burkina Faso in cotton and Nigeria in crude oil. He argues that heterogeneity is not a bar to monetary integration if there are effective mechanisms to control asymmetric shocks and ensure adequate risk-sharing.

Nigeria is not only the largest economy in ECOWAS accounting for 65% of the GDP of the region but is also the largest economy in Africa and one of the strongest proponents of Eco (Zouri, 2021). Hence, it is highly improbable for a monetary union to be realised without Nigeria. Nigeria is to Eco as Germany is to the euro. Consequently, Eco needs to pay close attention to the monetary and fiscal policies of Nigeria and Eco monetary policies should be drafted to reflect any market shocks that can be caused by Nigeria. Smaller states in ECOWAS can request additional requirements from Nigeria to compensate for any disproportionate risk it poses.

A further institutional challenge will be the loss of monetary sovereignty. This will not be much of a disadvantage to WAEMU states as monetary sovereignty in these states is diluted by French influence compared to WAMZ states with the highest level of monetary sovereignty. Monetary integration in WAMZ states would shift decisions on monetary policies from member states to ECOWAS. On the contrary, WAEMU states will increase their monetary sovereignty by minimising French influence. In fact, WAEMU states have already taken back some amount of monetary sovereignty because of current negotiations on monetary integration in ECOWAS. In persuading WAEMU states to change the name of the CFAF to Eco, France made certain concessions to WAEMU states granting them additional autonomy in the areas of currency reserves which will no longer be held in the French treasury and is now held in WAEMU central bank. France also gave up its seats on WAEMU central bank board which it has held since independence.

If smaller states such as Cape Verde are wary of influence from larger states like Nigeria and the impact of such influence on their monetary sovereignty, then the approach of the euro zone might be adapted to the Eco zone. The EU design its institutions to accommodate smaller states in decision making to prevent one or more hegemonic states influencing policies (Link, 2012). This was done through overrepresentation of smaller states in decision-making, independent supranational institutions, and rotation of heads of institutions (Magnette & Nicolaïdis, 2005).

There are also significant legal and political divergences in the region which can negatively impact Francophone states more than the others. Membership of Eco by Francophone states may be perceived by France as loss of influence
over her protégés, which might damage the close relationship of WAEMU states and France. This may result in retaliation by France through reduced economic and military support to the current regimes it sustains in Francophone states. More importantly, France will seize to be the guarantor of CFAF convertibility and may refuse to provide financial assistance to the governments of the eight CFAF countries in case of a crisis as it has done in the past.

ECOWAS must also seek to achieve cultural unity. While there are common cultural tenets in terms of language and tribes, WAMZ states would lose their individual identity when the monetary union is created. For instance, Nigeria would no longer have the naira which is linked to its name and people but rather will have an identity linked to the region. On the other hand, WAEMU states, would need to create a new shared identity with ECOWAS. States must convince their people of the advantages of a shared identity.

5 Conclusion

If Eco would be launched based on economic factors alone it may not suffice. West Africa must congregate, construct, and reconcile the political, legal, and cultural institutions with economic goals of the region under a workable and realistic framework for the single currency to be accepted by all member states. This paper addresses the crucial institutional factors that will guide negotiations and design of the Eco single currency.

At this point, opinions on the economic rationale for a successful west African single currency is mixed. Believe of ECOWAS leaders in their ability to move the region and the continent forward should therefore be added to other arguments on the feasibility of the Eco single currency. Whether west Africa would succeed in their quest for a single Eco currency may be down to their desire to have a say in Africa and the World. When euro was being conceived, it was perceived by some as a political statement rather than an instrument of economic development as then, the apparent economic benefit of the euro was not obvious (Feldstein, 1997).

Moreover, monetary unification is not only about fighting inflation or accelerating economic development but also about the will to co-exist. For Africans especially Francophone Africans, Eco would be more than a medium of exchange, store of value and unit of account. Eco would represent decolonisation, self-determination, monetary sovereignty, African Unity, cultural identity, and pride. For all the above objectives to be achieved, effective institutions have an immense role to play.
References


Why Institutions Matter for Eco Currency


