

A new currency for West African states: The theoretical and political conditions of its feasibility

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Abstract:

Recent developments in the monetary situation in West Africa, in particular the transformation for the CFA franc area and the project to build a single currency for the CEDEAO/ECOWAS, require a systematic review of the assumptions underlying the formation of monetary unions. The article provides a critical review of the traditional theoretical foundations of optimal currency areas (OCAs) and their subsequent amendments, in light of the problems that emerged in the most relevant monetary unions. On specific points, a comparison is made between the eurozone and the CFA zone. The article then investigates the specific characteristics of the monetary area affected by the reform project, and finally it indicates the main lines along which the project of a common currency to all the states that currently make up the CEDEAO/ECOWAS could evolve, identifying four possible alternative roadmaps.

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Founded in 1975, the Economic Community of West African States (Communauté Économique des États de l'Afrique de l'Ouest, CEDEAO, hereafter ECOWAS) aims to promote monetary, political and economic cooperation between member states. It is made up of fifteen countries,¹ eight of which form the Economic and Monetary Union of West Africa (Union Économique et Monétaire Ouest Africaine, UEMOA), with the CFA franc as its currency.

In addition to the already named CFA franc adopted by eight UEMOA countries, there are the Nigerian naira, the Ghanaian cedi, the Sierra Leone lion, the Liberian dollar, the Gambia

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¹ Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.



dalasi, the Cape Verde escudo, and the Guinean franc. The CFA franc and the escudo are pegged to the euro, while the other currencies are subject to different exchange rate regimes. The IMF classifies Guinea and Nigeria as “stabilized arrangement with a monetary aggregate target”, Liberia as “other managed arrangement” with the “US dollar as exchange rate anchor”, Sierra Leone and Gambia as “other managed arrangement with a monetary aggregate target” and, finally, Ghana as “floating exchange rate arrangement with inflation-targeting framework” (IMF, 2018).

The ECOWAS has planned the establishment of a single currency, for which the name “eco” has been chosen, by the second half of 2020.

A first step has already been taken with the joint declaration of the Ivorian President Alassane Ouattara and the French President Emmanuel Macron on the 21st of December 2019 on the passage of the UEMOA area to the eco, concurrently with the Final Statement (points 13-18) of the 56th ordinary session of the Conference of the Heads of State and Government of the ECOWAS, held in Abuja, Nigeria. In addition to the change of name, the management of the reserves deposited at the French Treasury by the UEMOA states will pass to the Central Bank of West African States (BCEAO), with the simultaneous definitive closure of the operations account that housed the reserves at the French Treasury.

This is certainly a first step, but still an important step. From a symbolic point of view, because the change of name implies a break with colonial history (the acronym CFA meant, in fact, even before “African Financial Community”, simply “French Colonies of Africa”); from a structural point of view, because the exit of France from the management of the currency is a *sine qua non* condition for English-speaking countries, even just for considering their entrance into the eco zone.

The aim of this article is to analyze the conditions of theoretical sustainability and political feasibility of the future single currency of West Africa. The work is divided into four sections. The first section is dedicated to the theories called into question by the project, with reference to both traditional elaborations and more recent orientations; the second section analyzes the current situation in West Africa through the lenses of economic theories and the hypothesis of a single currency; the third section presents a first assessment of costs and benefits related to the different exchange rate scenarios under discussion; and the last section analyzes different prospective and strategic scenarios for the implementation of a common currency for the ECOWAS.

1. Monetary unions and optimality: the theories at stake

The necessary reference for any project of monetary unification is the notion of “optimum currency area” (OCA). The origins of this notion are to be found in the long controversy over the optimal exchange rate regime. The dispute concerns the advantages and disadvantages of flexible versus fixed exchange rates. The protagonists of this debate have generally dealt with the problem in a somewhat abstract way, that is, to be precise without considering that the choice of the optimal exchange rate regime may differ according to the countries taken into account (Dellas and Tavlas, 2009).

Although countries vary not only in absolute size but also in relation to their openness to foreign trade, to the mobility of production factors, and to the orientations of the political class, the proponents of exchange rate flexibility tend to treat each national currency in an

undifferentiated way. Since the exchange rate is the price of one currency in terms of another, it is assumed that it reflects the relative balances of power, and weakness, between all countries and their economies.

As Dellas and Tavlas (2009, p. 8) write:

Friedman's case for floating exchange rates was built on three main arguments. First, in light of the sticky prices and wages that characterize the real world (and made reliance on adjustments in wages and prices a lengthy and costly process), a system of flexible exchange rates would constitute an equilibrium system in which market forces act automatically to bring about external balance while averting the balance-of-payments crises that Friedman believed were an inherent feature of fixed-but-adjustable rates. Second, floating exchange rates would provide independence for monetary policy, largely protecting 'each country from being infected by the monetary mistakes of the others'. Third, a system of flexible exchange rates would be conducive to the removal of controls on the movement of goods and capital among countries, promoting multilateral trade.

Friedman (1953) has no doubts in stating that capital movements show stabilizing effects on the exchange rate. In reality, however, one could object that it is precisely the portfolio capital movements that can hinder the achievement of the equilibrium of trade balances and favor the persistence of global imbalances. On the other hand, the indisputable advantage of a fixed rate regime is the removal of the exchange rate risk, which is another way, certainly not less important, of promoting multilateral trade.

This is a truly controversial point, both theoretically and empirically. As Tavlas (1994) writes, from the theoretical point of view the effects of exchange rate volatility on trade are a priori indeterminate, whilst from the empirical point of view there does not seem to be any evidence of a negative effect of volatility. It can also be observed that the volume of international trade grew at a lower rate under the Bretton Woods regime than in the twenty years since its fall.² However, Grier and Smallwood (2007) show that in the case of developing countries the negative effects of exchange rate volatility on trade are stronger.

The fact remains that in the 1960s the orientation adopted by the Bretton Woods agreements consisted of maintaining fixed exchange rates and regulating capital movements. It is in this context that there arose an interest in economic areas characterized by the adoption of a single currency. According to the analyses of important theoretical economists of the 1960s, in order for a group of countries to be interested in choosing a currency area characterized by fixed parities instead of maintaining flexible rates, a certain number of conditions must occur. The theory of OCAs is the main theory behind monetary unions.

1.1. Basic theory of a monetary union

The first works on OCAs are by Mundell (1961). They focus on labor mobility and price flexibility. Starting from Mundell's initial contribution, the interest of a group of countries in taking part in a monetary union is theoretically defined by a priori criteria, i.e., by the existence of preliminary conditions. However, the subsequent development of research has also highlighted the possibility that those criteria may not be *conditions* for the establishment of an OCA but *objectives* to be achieved through the establishment of an OCA. Two approaches therefore seem to emerge from the literature: static and dynamic analysis of the optimality of a currency area.

² <https://data.worldbank.org/topic/trade>

The static approach (i.e., fundamentally, the traditional approach) is based on the respect of exogenously given criteria, whilst the starting point of the dynamic approach is the endogenous nature of the optimality of a currency area. Mundell (1961), McKinnon (1963) and Kenen (1969) are the main theorists of the static analysis of the optimality of a currency area. According to this approach, the simplest definition that can be given of an OCA would therefore be the following: an OCA is a geographical region in which the establishment of a single currency would be beneficial because the benefit for the area as a whole would be greater than the costs, for the simple reason that the operating conditions of the area are already given. As a matter of fact, Mundell indicates specific trade-offs to measure costs and benefits: there would be an upper and a lower bound for the extension of the area: not too small, to avoid the risk of speculation on the international money markets, but not too large, because differences between countries increase with the geographic extension.

However, if we go to the essential, Mundell (1961) chooses as a key criterion a high degree of mobility of the factors of production, in particular of the labor factor. Assuming that changes in demand are the cause of the balance of payments imbalance, Mundell highlights the condition according to which the adjustment of payments can be made with a minimum burden by the regions affected by the change concerned.

He states that the aforementioned mobility nullifies the effects of an exogenous asymmetric shock, which shifts the demand from one country or region to another country. However, in the absence of sufficient mobility, the adjustment between countries will not occur automatically. In this case, he opts for exchange rate flexibility as an adjustment channel.

To this end, we consider a monetary union made up of two regions, A and B, and assume that full employment and full equilibrium of the balance of payments are achieved under the hypothesis of rigid prices and wages. If an asymmetrical shock causes a shift in demand from A to B, production in A will decrease, with the effect of inducing an increase in unemployment and current account deficits. In B, on the other hand, the increase in demand will lead, on the one hand, to an increase in production and, on the other hand, to an improvement in the current balance. If there is full labor force mobility between A and B, the imbalance on the labor market and the balance of payments problem are resolved automatically. The unemployed of A are forced to look for work in B. The increase in demand in B will result in a decrease in exports of B and an increase in imports from A.

Moreover, for Mundell such a demand shock will be resolved by the flexibility of wages: unemployment in A leads to a reduction in wage demands in A. This reduction decreases wages and therefore prices, thus strengthening the region's competitiveness, while the rise in wage demands, and therefore wages, in B will cause the reverse effect. The shock will thus be absorbed without it being necessary to change the exchange rate. Mundell therefore proposed two criteria for assessing a priori the optimality of a currency area. First, labor mobility: this is the key characteristic of an OCA between two or more countries, since such mobility reduces the need for an adjustment of the nominal exchange rate in order to correct external imbalances. Secondly, wage flexibility: if wages are flexible in the two (or more) countries, this allows, in the face of an asymmetric shock, a return to equilibrium. In the absence of labor mobility and/or wage flexibility, there is an *a contrario* argument in favor of the flexibility of the nominal exchange rate and of different monetary policies in the two (or more) countries.

Mundell's seminal analysis (1961) has been resumed and further developed by McKinnon (1963) and later by Kenen (1969), who take into consideration other criteria and, in particular,

respectively, the degree of openness of the countries involved and the diversification of their national productions.

McKinnon (1963) says that the more open a country is, the more wages and prices will be influenced by the exchange rate, and therefore the less the change in the exchange rate will be effective as an external adjustment channel, operating through, indeed, the improvement of the terms of trade. As a corollary, it can be said (Tavlas, 1993) that a small country will also be more open and will therefore have a greater benefit in entering a currency area.

For Kenen (1969), the interest of a given economy in joining a monetary union depends on the level of diversification, i.e., internal specialization, of the prospective economies of the union. For Kenen, since shocks are usually sectoral (meaning that they touch not the economy as a whole but a subset of its sectors), a more diversified economy is less exposed to the risk of being destabilized by this kind of shock, and the exchange rate is therefore less useful for obtaining macroeconomic adjustment. Hence, for this type of economy the transfer of its exchange rate policy to a currency union is less expensive.

Kenen also argues diffusely on the importance of fiscal integration as an adjustment tool, i.e., on the role played by fiscal policies coordination where the absorption of asymmetric shocks is at stake: an asymmetric shock can be reabsorbed thanks to fiscal transfers between different regions. This is a crucial point, which was and still is the ground for many criticisms of the architecture of the euro, and to which we will revisit in section 3, which is dedicated to the possible architectures of the future “eco zone”.

With reference to the United States, Sala-i-Martin and Sachs (1992) estimated that between 30% and 50% of the income decrease caused by asymmetric shocks is subsequently compensated by the federal budget (through transfers and tax reductions), suggesting that this insurance mechanism (totally absent in, e.g., the eurozone) is the basis for the proper functioning of the monetary union in the USA.

1.2. Theoretical extensions

Still within the framework of traditional OCA theories, the literature took into consideration three other criteria, seen as preconditions for the success of a currency area: the convergence of inflation rates (Fleming, 1971), the synchronization of business cycles and, finally, the volume of trade of each member country with the other members of the area.

These developments led to extensive literature on OCAs. For Tavlas (1994), the theory of currency areas does not offer a unifying analytical framework. The boundaries of the optimality of an area change according to how the different theories are combined.

An important point, which differentiates the earliest theories from their more recent developments, is that the traditional theories of OCA are *ex ante* theories, while the subsequent ones, also called endogenous, are *ex post* theories.

For traditional theory, compliance with the criteria is a prerequisite, which is capable of ensuring the optimality of a monetary union. However, in the 1990s and later, thanks mainly to the contributions of Frankel and Rose (1997), Krugman (1993) and De Grauwe and Mongelli (2005), the theoretical debate allowed for the integration of dynamic analysis into theory, through the channels of endogenous development and production specialization.

According to Frankel and Rose (1997, 1998), the intensification of economic integration favors the generation of symmetrical economic cycles. The authors believe that an economic union that can be evaluated *ex ante* as expensive, and therefore economically and politically

impractical, can nevertheless become beneficial *ex post*. This inversion of the theoretical approach logically derives from Lucas' critique of the macroeconometrics of the Keynesian synthesis, and from the revolution that it calls for in macroeconomic analysis.

Traditional literature on OCAs sees commercial integration and synchronization of business cycles as preconditions for the success of a monetary union. Frankel and Rose's (1997, p. 1011) criticism is based on the endogeneity of these very conditions:

Such a procedure is untenable if the OCA criteria are *jointly endogenous*. That is, the suitability of European countries for EMU cannot be judged on the basis of historical data *since the structure of these economies is likely to change in the event of EMU*. As such, this paper is simply an application of the well-known "Lucas Critique".

The authors empirically show that greater commercial integration *implies* a synchronization of business cycles. Therefore, since a monetary union is likely to trigger greater trade integration between member countries, it will also imply a higher degree of cycle synchronization. The consequence is that the optimality criteria of a monetary union can be met *ex post*, even if they are not met *ex ante*. The formation of a monetary union *can* therefore generate by itself the conditions of its own optimality.

Of course, this does not go without some contraindications: unlike Frankel and Rose, Krugman (1993) has shown that the establishment of a fixed exchange rate regime between the economies of a currency area, and even more so the adoption of a single currency, would lead to a specialization of individual countries and therefore to asymmetric shocks. His reasoning rests on the notion of increasing returns to scale of international trade, according to which integration allows for an intensification of comparative advantages, which in turn results in a strong specialization in the production of goods.

In itself, however, even specialization can prove to be an integration factor, through the activation of *complementary relationships* between production structures in different countries. This is, for example, what Salais (2013) argues in reference to Europe. However, this crucially depends on the way in which trade imbalances – potentially generated by specialization – between countries participating to the union are taken into account; and also on whether or not adjustment criteria are established. The history of the euro is in this sense rather revealing: the euro knows the "original sin" of not having planned adjustments for external trade imbalances (Altomonte and Villafranca, 2010). Thus, the convergence has been "subcontracted" to capital movements within the Eurozone, on the hypothesis that (on the basis of the assumption of decreasing marginal returns on capital) capital flows from the center to the periphery of the union would have generated catching-up processes which, in turn, would have led to a reabsorption of imbalances in the medium to long run.

Salais (2013), as well as Amato and Fantacci (2012), proposes forms of compensation between countries based on a common currency instead of a single currency – with evident reference, in the European case, to the historical precedent of the European Payments Union (EPU). We will return to this issue in section 4 of the article, when discussing "roadmaps" for the implementation of an "eco zone".

For now, we want to emphasize an important element that has just been brought out: one of the crucial factors for the dynamic sustainability of a monetary union is the nature of the shocks that characterize it. The distinction between symmetric and asymmetric shocks is of primary importance in understanding monetary unions (Bénassy-Quéré et al., 2009a and 2009b). OCA theorists, both traditional and modern, postulate the existence of symmetrical shocks as a condition for the formation of a sustainable currency area (see, for example, Alesina

and Barro, 2002). According to Emerson et al. (1992), we can distinguish between common shocks, i.e., which affect all the countries in the area in question, and specific shocks, which instead affect only a specific country in the area. Symmetric shocks are therefore common shocks that have an identical impact for all the countries in the area. Asymmetric shocks are also common shocks, but they affect the countries of the area with different intensity and amplitude. Shocks that instead affect only one country must be distinguished as idiosyncratic shocks. The analysis of the symmetry (or asymmetry) of the shocks is therefore very important for the endurance of a currency area.

In order to determine the relationship between economic shocks, economic literature uses many decomposition methods on both nominal and real variables. The most commonly used method is that of Blanchard and Quah (1989), further developed by Bayoumi and Eichengreen (1992a and 1992b). The aim is the decomposition of shocks affecting production and prices in supply shocks and demand shocks, respectively. This method is useful for analyzing risks associated with the adoption of a common currency, since it allows one to determine the nature of the shocks and therefore the most appropriate responses. Bayoumi and Eichengreen studied two types of shocks, with two VAR models: one for real GDP and the other for the GDP deflator. The shocks were estimated as a function of the residuals of the two models. The two scholars had estimated that there were more asymmetric shocks in the prospective countries of the European Economic and Monetary Union (EMU) than in the American states, and that this situation therefore was to pose additional difficulties for the stability of the EMU. The prevalence, if only relative, of asymmetries makes it, in fact, more difficult to adjust shocks in European countries, with persistent high unemployment rates in the wake of negative “shocks.”

Moreover, the EMU, *the way it was created*, does not seem to have favored the symmetry of shocks. As Miles and Vijverberg (2018) show, out of eight EMU member countries, in only one case (the Netherlands) did monetary unification produce greater synchronization of the economic cycle relative to France and Germany, while in three cases synchronization even decreased, which disproves, at least in part, the conclusions of Frankel and Rose (1997). *Again, in a union, the way you get there counts as much as the way it works.*

The aforementioned methodology was also used to estimate the impact of the enlargement of the monetary union on the countries of Central and Eastern Europe. Using data from ten economies in that sub-region and from the whole Eurozone economy, Fidrmuc and Korhonen (2001) estimated that Hungary, Latvia and Estonia recorded a strong correlation between supply shocks with the EMU throughout the period 1994-2000. For other countries in the sub-region, the shock correlation was close to zero, which suggests a much smaller structural convergence of these countries with the EMU.

To conclude: the cost of a monetary union proves to be an increasing function of the degree of asymmetry of the shocks between countries involved in the process (Bénassy-Quéré et al., 2009a). *This asymmetry is an even less negligible factor in the case of a union between emerging or developing economies.*

1.3. New theoretical orientations

Starting from these empirical tests, the theories that constitute the substratum of a sustainable monetary union have undergone further evolutions. The Keynesian assumptions of Mundellian analysis have been rejected by the new theory of currency areas.

In particular, the idea that the autonomy of monetary policy offers a country the possibility of positioning itself on a point of its choice on the Phillips curve has been rejected. Thus, that which appeared to be one of the main costs of joining a monetary union has fallen away.

Recent criteria take into account nominal and real convergence. These convergence criteria are not inspired by Mundell but by the theory of credibility and the consideration of temporal inconsistency (see Barro and Gordon, 1983). The new theoretical line on OCAs has highlighted that, for countries with monetary institutions which are not credible in their commitment to maintain price stability, hooking up to a single currency can solve the credibility problem, since it is, in the end, a way to “tie one’s hands” (Giavazzi and Pagano, 1991). This way of posing the problem not only eliminates what in Keynesian theory constituted the main cost of a union, i.e., the loss of sovereignty of monetary policy, but it also tends to transform this loss into a benefit. It then remains to be seen whether and how much we should “tie our hands” and how much this renunciation of sovereignty should be “compensated” by other forms of community solidarity.

In the literature, as we have seen, the convergence of economies as a prerequisite for the establishment of a monetary union remains a topic of discussion, both from a theoretical and an empirical point of view.

Traditional OCA theory implies that the preventive convergence of inflation rates, interest rates and fiscal policies is neither necessary nor sufficient for the construction of a well-established monetary union (De Grauwe, 1996). It is not necessary because countries that record, for example, different inflation rates before the union can nonetheless be similar from the point of view of their economic structure, and therefore they do not have to face large asymmetric shocks. The difference in inflation rates may reflect different institutional characteristics in the development of monetary policies. In some countries, the central bank may have great independence; in others, it can depend on the finance minister. In a monetary union, these institutional differences can only disappear, so that the *previous* differences in inflation rates will be no longer relevant. Conversely, a preventive convergence of inflation rates is not per se a sufficient condition for the formation of a monetary union. Different countries may exhibit the same inflation rates but at the same time be so structurally different as to make a monetary union suboptimal.

Take, for example, the case of Belgium and Germany before the establishment of the Eurozone. Belgium fully respected the inflation convergence criterion. At the same time, however, Belgium had a complete wage indexing system, while Germany did not. Therefore, if an oil price shock had occurred in the future monetary union, the spiral of wage costs in Belgium would have risked leading to competitiveness problems for Belgian industry. The fact that Belgium managed to reduce inflation in the 1990s would not in itself (even in the absence of an oil price shock) lead to price stability in the future for this country. What really matters is that Belgium changes its wage indexing mechanism. Consequently, as clearly stated by De Grauwe (2003), the institutional structure of the labor market is another important factor that must be considered in the analysis of the OCAs: countries with significantly different labor markets risk paying a very high price if they decide to proceed with a monetary unification.

By generalizing the argument, the elements of structural rigidity can continue to operate even in the case of a convergence of inflation rates, and make possible divergences subsequent to the union, which can no longer be absorbed by varying the exchange rate, *but only by operating a convergence towards the more “flexible” structural regime, in particular as concerns the labor market regime.*

Convergence presupposes the existence of uniformity, or at least of a standardization process of the economic structures of the countries involved. Here is the question of structural reforms, which has deeply marked both the history of the EMU and the vicissitudes of the African countries subjected to the structural adjustment programs promoted by the IMF. It is, it should be remembered, a political problem even before it is a technical one. It is certainly not a coincidence that the political dimension has been taken seriously in the literature on OCAs: Haberler (1970, cited by Mongelli, 2008), for example, sees the similarity of the basic political orientations between countries as a crucial condition for the success of a currency area.

If then we stick to Dellas and Tavlas (2009), we should even admit that the literature on OCAs has not sufficiently weighed the risks associated with a single monetary policy for countries characterized by different levels of economic development. To get a better look at these implications, let's consider two countries, A and B. Country A is an economy with high per capita income, while country B has low per capita income. In a monetary union between the two countries, under which the objective of price stability has been entrusted to a regional central bank, country B could find itself with: (i) relatively high expected rates; (ii) low (nominal) interest rates (due to the regional inflation rate, kept low by the regional central bank); and (iii) free capital movements. Factors (i) and (ii) can lead to excessively optimistic income expectations and therefore to "incorrect" investment expectations (resulting in investments in high-risk projects, which would not have been undertaken in the absence of low nominal and real rates). On the other hand, factor (iii), which at first, and in the presence of favorable conditions, can facilitate the inflow of capital from A to B, helping to make possible (i) and (ii), can, however, as has been observed, *hide* rather than reabsorb divergences, thus exposing the area to the risk of a sudden stop in capital movements from surplus countries towards deficit countries. Since, as a result of this dynamic, the prices of B have increased more than those of A, in light of the above we can say that the economy in question may have to deal with the constraint of a prolonged deflation in order to recover its competitiveness. The euro crisis tells us exactly *this* story. The result of this line of reasoning is that the degree of real convergence should be deemed as an important characteristic, and that it should underlie the choice of the exchange rate regime.

With explicit reference to the African case, Ogunkola (2005) also concludes that the convergence of economies is necessary for a stable monetary union at the regional level for West Africa.

Moving now from convergence conditions internal to the OCA to external constraints deriving from its relations with the rest of the world, it is appropriate to raise a subject which is crucial especially for African monetary unions (now the CFA franc, in the process of transforming in echo in UEMOA, and prospectively the eco, as the currency of the whole ECOWAS).

The empirical literature supports us with precise indications of the difficulties encountered by countries that decide to abandon the rigidity of their exchange rates in favor of a more flexible structure, especially with regard to the problems of exchange rate misalignments, which can lead to competitiveness problems in terms of prices.

While Simwaka (2010) finds that fixed exchange rate regimes should be privileged by ECOWAS countries, Diop and Fall (2011) instead believe that these countries can opt for fixed or intermediate exchange rates between fixed and flexible. Instead, for both Dupasquier et al. (2005) and Diaw and Ka (2012), the most appropriate exchange rate regime for these countries

is one of flexible exchange rates. We will return to these issues in section 2.2, which discusses symmetries/asymmetries of macroeconomic shocks in the ECOWAS area.

2. A comparison between stylized facts and theoretical statements

The idea of establishing a single currency for the ECOWAS was first launched in Conakry, Guinea, in 1983. On that occasion, a monetary cooperation program was proposed, which was subsequently validated in July 1987. In order to implement the idea of a single currency at the level of the entire ECOWAS, the West African Monetary Agency (WAMA), an autonomous specialized agency of the ECOWAS, replaced the monetary cooperation program in 1996. The political commitment to renewed cooperation, carried out by Ghana and Nigeria after December 1999, and subsequently accepted by Guinea, Gambia, Sierra Leone and Liberia, transformed the idea of an accelerated approach towards monetary integration into a realistic and achievable proposal. A first crystallization of the idea took place with the formation of a West African Monetary Zone (WAMZ; Zone Monétaire Ouest-Africaine, ZMAO), for eventual merger with the CFA zone. The merger with UEMOA will achieve the formation of a single area. On April 20, 2000, in Accra, Ghana, six countries of the ECOWAS (Nigeria, Ghana, Gambia, Guinea, Sierra Leone, and Liberia) announced their intention to create a monetary union in West Africa. On December 21, 2019, as mentioned at the beginning of the article, a first step was taken. The credibility of the monetary integration of the ECOWAS area will be based not only on monetary stability but also on the implementation of mechanisms to support a strong, inclusive and development-centered growth.

At the second summit of the African Conference of Heads of State and Government on 15 December 2000, the statute of the future central bank of the WAMZ states was drafted. Monetary integration is an integral component of the ECOWAS *Vision 2020*. The aim of this vision is the intensification of the integration process through the promotion of the West African identity and community within the populations. Therefore, the regional strategic plan of the ECOWAS sees the intensification of economic and monetary integration as an important pillar for the development of the community.

Even if the “roadmap” is well traced and widely shared, there are nevertheless obstacles to its implementation. In West Africa there are many monetary problems, in particular: the immediate non-convertibility between currencies (within the CFA zone, between UEMOA in West Africa, and CEMAC, Communauté Économique et Monétaire de l’Afrique Centrale, in Central Africa); poorly developed financial systems and payment channels; very ineffective monetary policy transmission channels (Saxegaard, 2006; Buchs and Mathisen, 2005); and very strong imbalances between the exchange rates of the different currencies in play. Hence, the question: can the solution to these problems pass through a monetary union? Under which conditions? *And in view of what form of union?*

These are important questions, since history shows us, even in the case of the EMU, that the forms of union and the processes that lead to the union can be very different and therefore the problem of choosing between the different solutions is a technical problem as well as a political one.

If we take into account the fact that a West African monetary integration process has already been activated by political agencies to assess whether conditions favorable to its implementation exist, we feel the urgency of analyzing the economic sustainability of the future

monetary union of the ECOWAS. This concern will allow us to ask ourselves, first of all, whether the ECOWAS area fulfills the conditions for a single currency. In other words, does the ECOWAS area constitute an optimal area in the sense of the theoretical elaborations discussed in the previous section? Does it meet *ex ante* or *ex post* conditions? In the case, which is very likely, that it meets *ex post* conditions, which implies the need to envisage pathways for establishing the area, what are the different scenarios that can be envisaged, and depending on what objectives? For example, and against the ideas developed by traditional theory, which application of modern theory will allow the ECOWAS area to achieve an increase in the volume of its inter-area trade?

We will try to answer these questions by referring to a certain number of stylized facts (2.1.) and to the analysis of the consequences of macroeconomic shocks (2.2).

2.1. Diversification of economies

The determination of the trade specialization index (TSI³) for the ECOWAS area pictures a rather well-known situation. The index at hand shows a specialization in the production of primary, agricultural and mining products. The value of the TSI for the period 1995-2012 fluctuates between 0.75 and 0.95 for coffee, tea, cocoa, spices and derived product, with an average of 0.87. The average TSI of the ECOWAS for the period in question is 0.98 for cocoa against 0.52 for coffee. For agricultural products (fruits and vegetables), the TSI is 0.35. The average TSI is strongly negative for cotton (-0.70), glass (-0.95), and iron and steel (-0.88). In general, it is -0.58 for manufacturing products, which reflects the structural weakness of the whole industrial sector in the area. Clearly, the ECOWAS area has specialized in the production and export of primary products. Most of the manufactured and industrial products are imported, which in retrospect poses a problem, especially if we take into account the current demographic dynamics.

Overall, all ECOWAS countries are very open economies, positioned in the lower part of the global value chain (Nubukpo, 2019; Giro, 2019), with a weak complementarity index and a very low level of interchange, although probably with large margins for improvement. This is a topic that cannot fail to impact on the central question of the nature of the shocks to be faced by the coming monetary union.

2.2. Analysis of the macroeconomic shocks of the ECOWAS

We tried to understand whether the data concerning the ECOWAS confirm or reject the indications of the neo-Keynesian-inspired models concerning the EMU. According to the models, the main drawback of a monetary union between different countries is the preponderance of asymmetric shocks but, at the same time, the transition to a union can lead to greater synchronization of business cycles, especially through an increase in trade within the monetary zone (see, for example, Furceri and Karras, 2008a and 2008b).

When we attempt to evaluate the symmetry/asymmetry of the correlations of structural shocks, if the correlation is significantly positive, the shock is classified as symmetric, while, if the correlation is significant but negative, the shock is asymmetric. A shock is classified as

³ The TSI of an economy j for a product i (TSI_{ji}) indicates the normalized trade balance for the product in question: the formula is $(X_{ji} - M_{ji}) / (X_{ji} + M_{ji})$. The values fluctuate between 1 (the product is exclusively *exported*) and -1 (the product is exclusively *imported*).

idiosyncratic if the correlation coefficients are not significant (Bayoumi and Eichengreen, 1992a and 1992b; Bayoumi et al, 1999; Ling, 2001).

The question has been raised for a long time, and there is, seemingly, a rather unambiguous answer: both in the ECOWAS region, i.e., the target of the “eco plan”, and in UEMOA, the monetary union of the CFA franc, supply shocks are largely asymmetrical, demand shocks are slightly less asymmetrical, and in general there is no marked cycle synchronization. The ex ante conditions for a union are therefore not given, and the literature is rather unanimous, also in terms of policy recommendations, in suggesting corrective and institutional systems that can set in motion ex post convergence processes – for example, through coordination agreements between central banks in the ECOWAS area (Mati et al., 2019) and in general for agreements able to accelerate the responses of policymakers to the emergence of shocks (Fielding and Shields, 2001).

Here is what emerges from a brief look at the literature on the matter. From the point of view of methods, Mati et al. (2019) perform a breakdown of shocks into supply and demand shocks following the article by Blanchard and Quah (1989). Houssa (2008), on the other hand, applies another empirical method, although reaching substantially the same conclusions as Mati et al.

Fielding and Shields had already applied Blanchard and Quah's breakdown to the CFA franc countries only, finding also in this more restricted case that the supply shocks are asymmetric (while demand shocks exhibit a greater symmetry). Finally, Miles (2016), applying the methodology developed in Mink et al. (2012), analyzes more generally the synchronization of economic cycles between countries, finding that the countries in question exhibit generally asynchronous economic cycles.

Finally, it may be useful to recall the results of a recent study by D.H. Lawson (2020). The work is part of the line of research that uses the Blanchard and Quah method previously mentioned and is based indeed on a structural VAR. The sample considered in the research (the data comes from the UNCTAD database) refers to the period 1985-2014 and covers 13 countries of the ECOWAS. The variables used are GDP, real GDP per capita, and level of inflation.

The results obtained, starting from the correlation analysis between structural shocks of supply and demand on the ECOWAS countries for the period 1985-2014, confirm the prevailing interpretative line: of all the supply shocks, 32 correlation coefficients out of 66 are significant for thresholds of 1%, 5% and 10%. Of the 32 coefficients, 18 are significantly positive.

As for demand shocks in the period 1985-2014, 39 correlation coefficients are significantly positive and 12 are significantly negative.

If we focus on the UEMOA area, we observe that the majority of the countries in the area have highly significant correlation coefficients. The homogeneity of the demand shocks, however, derives from the common currency in use among the eight UEMOA countries. According to the criteria of the Convergence, Stability and Growth Pact (Pacte de Convergence, de Stabilité et de Croissance, PCSC), the inflation level of UEMOA countries must not exceed 3%.⁴ This community rule forces countries to have concerted inflation rates. Thus, since the inflation rate is the level of growth of the consumer price index, the result is a homogeneity of the consumer price indices of the countries of the UEMOA area. It should be noted, however, that this greater symmetry could hide a tendency of monetary agreements to reduce, or at least not to sustain, more marked endogenous growth rates.

⁴ See <https://umoatitres.org/wp-content/uploads/2018/12/Pacte-de-convergence-UEMOA.pdf>

The countries of the ECOWAS area are characterized by a preponderance of significant coefficients for structural demand shocks compared to structural supply shocks. Structural supply shocks are therefore less symmetrical than structural demand shocks.

This disparity in supply shocks is explained by the differentiation of the production structures in the ECOWAS area. Indeed, as Miles (2016) appropriately points out, a shock in the oil sector is suffered very differently by the different economies of the sub-region. The disparity between producing countries, such as Ghana and Nigeria, net exporters of oil, and countries like Togo and Benin, net importers, suggests that the production structure can only be different in these two types of economy.

2.3. Analysis of endogenous convergence criteria

In most approaches, the degree of economic integration and the correlation of incomes are an increasing function of time. Although this assertion is the subject of discussion among scholars, most endogenous growth theorists agree that openness can increase the level of trade between countries that share the same currency (Debrun et al., 2002).

According to De Grauwe and Mongelli (2005), Frankel and Rose (1997), and Debrun et al., (2002), the decision to establish a monetary union will set in motion the process of integration of the OCA. First, integration in terms of the intensity of trade between countries sharing the single currency is expected to increase, and this will have the effect of improving the trade-off between stability and flexibility, thus also facilitating movements within the ECOWAS area, both of factors and goods.

A second endogeneity is the symmetry of shocks. The decision of ECOWAS countries to enter a monetary union will allow increased symmetry of the shocks affecting the different economies of the union. In this sense, integration, symmetries and flexibility endogeneities reinforce each other and accelerate the process towards the optimality of the currency area.

2.4. From theories to politics

As we have emphasized, a monetary union cannot arise without deep economic integration, *even if only expected*, but also and above all without a strong political will. Thus, not only in theory but also and above all in practice, the existence of symmetrical shocks and the respect of theoretical conditionalities are necessary but not sufficient conditions for the establishment of a monetary union: rather, we should say that they are *favorable* conditions for its constitution. The taking-over of the optimality conditions of the future monetary union, combined with a strong political will, is in all respects a priority, especially with regard to the positioning of the future common currency in the wider global monetary context. There are therefore two questions about sustainability: the internal question, as we have already seen, concerning preconditions; and the external question, concerning the type of exchange rate regime to which the new currency will be subjected. The combination of the two issues gives rise to different possible scenarios. What are then the different scenarios that can be envisaged for the sustainability of the union planned with the eco?

3. Analysis of exchange rate scenarios: coordination or fiscal federalism

The new union should bring together currency areas with different exchange rate policies. The CFA area has a fixed peg to the euro; the Ghanaian cedi has just moved from a flexible rate regime to a fixed rate regime, while the opposite is true for the Nigerian naira. The subject of the exchange rate regime is by no means harmless, especially because the choice of regime involves different constraints/degrees of freedom within the area. Given that openness to capital movements is out of the question, the crucial issue becomes, according to the Mundell-Fleming trilemma, that of the autonomy of economic policies.

Three realistic cases of single currency are conceivable, which can be ordered on the basis of the degrees of freedom that they admit:

1. A regime of fixed exchange rates with fiscal federalism
2. A flexible exchange rate regime with coordination of tax policies
3. A flexible exchange rate regime with fiscal federalism (ideal scenario)

However, it is possible, and to some extent even desirable, to imagine a fourth case, one that reflects a move from the theoretical and historical considerations carried out so far, and with regard to European history and to precisely the experiment of unification of the European market tried between 1950 and 1958 with the European Payments Union (Amato and Fantacci, 2012; Fantacci and Papetti, 2013; Bruni and Papetti, 2015). This fourth case is characterized as the case of a *common currency regime with adjustable exchange rates and monetary multiplicity*. We will examine this hypothesis in depth when we talk about “roadmaps”; for the moment, we will limit ourselves to a schematic presentation of the three main options.

3.1. CASE 1: FIXED EXCHANGE RATE REGIME AND FISCAL FEDERALISM

Monetary Policy	Fiscal policy
Inflation control	Specific fiscal policies for each state in respect to the nominal convergence criteria
Fixed exchange rate	Federal budget
Reduced leeway for the monetary lever	Forcing the members to a cooperative use of the fiscal lever
Loss of competitiveness in case of appreciation of the anchor currency	Possibility of responding to asymmetrical shocks through the federal budget
Role of ECOWAS Commission	
Possibility of using the federal budget as an instrument for countercyclical response (fiscal intervention of the commission in case of asymmetric shocks).	

It is the regime closest to a pure and simple extension of the CFA logic to the whole area. Taking into account the weak performances of the euro and the CFA as a single currency, the only remedy that could make sustainable a single currency anchored to one or more

international currencies would be a federal structure, which would allow collective management of fiscal policies, with internal transfers in the event of asymmetric shocks.

3.2. CASE 2: FLEXIBLE EXCHANGE RATE REGIME AND COORDINATION OF FISCAL POLICIES

Monetary policy	Fiscal policy
The central bank no longer needs to defend the exchange rate of the currency, except when the exchange rate gets closer to the extremes of the fluctuation bands	Specific fiscal policies for states in respect to the nominal convergence criteria
Monetary policy recovers the ability of countercyclical action, especially in case of symmetrical shocks	Nominal convergence
Relative instability of the exchange rate, which can trigger uncertainty among economic agents	Reduced leeway for the fiscal lever in case of asymmetrical shocks
Role of ECOWAS Commission	
Imperative to increase cooperation with the central bank so as to anticipate the impacts of exchange rate fluctuations on real economic activity.	
Increased necessity to work for a real convergence so as to make the economic cycles of member countries synchronous, thus making the most of the recovered ability of the central bank in terms of countercyclical monetary policy.	

In this case, the conditions of political feasibility seem broader, if we consider the differences in the economic structures of the potentially participant countries

3.3. CASE 3: FLEXIBLE EXCHANGE RATE REGIME AND FISCAL FEDERALISM (IDEAL SCENARIO)

Monetary policy	Fiscal policy
The central bank no longer needs to defend the exchange rate of the currency, except when the exchange rate gets closer to the extremes of the fluctuation bands	Specific fiscal policies for each state in respect to the nominal convergence criteria
Monetary policy recovers the ability of countercyclical action, especially in case of symmetrical shocks	Federal budget Possibility of responding to asymmetrical shocks
Relative instability of the exchange rate, which can trigger uncertainty among economic agents	Force the members to a cooperative use of the fiscal lever
Role of ECOWAS Commission	
Possibility of responding to asymmetrical shocks using the federal budget and cooperation with the future central bank in case of symmetrical shocks.	

Compared to the single currency, and taking into account the African reality, this appears to us to be the ideal regime. In the event of a symmetric supply shock, the commission could play an important role through the federal budget, as this is a typical case of monetary policy ineffectiveness. On the other hand, in the event of a symmetric demand shock, the commission could instruct the future central bank of the ECOWAS to organize an appropriate counter-cyclical response, through the use of monetary and fiscal instruments. All this, however, implies the need to work in view of a strong convergence, so as to synchronize the cycles of the economies of the ECOWAS and thus fully benefit from the new margins of maneuverability, in terms of policy mix.

4. Implementation of the single currency: roadmaps

As both the history of the euro and the history of the CFA franc teach us, starting a monetary union that is both economically sound and politically sustainable requires a construction process.

In the framework of the implementation of the single currency process, we imagine three different roadmap scenarios. The first scenario is that of a single currency with enlargement of UEMOA to a monetary union with countries that respect the convergence criteria.

4.1. Scenario 1: enlargement of UEMOA and controlled monetary flexibility

We propose here a review of the basic principles of the current monetary system according to a short- and medium-term calendar.

The short-term issues cover the following points:

1. *The centralization of reserves.* This is a fundamental aspect and one of the main results in the history of the CFA franc. It presupposes and translates into reality a great political solidarity between the states of UEMOA, and certainly it should not be forgotten when new members join the Union.
2. *The issue of external guarantee,* as currently exercised by France in the institutional context of the CFA franc, has a strong political dimension too: it grounds the stability of the system both in theory and in practice. However, while the balance of the “operations account” has historically always been positive, in 1993 its sharp and rapid decrease was read as an indicator of the necessity to devalue: the maintenance of the exchange rate was indeed conditioned to self-adjustment measures under the supervision of the IMF. It can be concluded that, as it is, this guarantee is not essential and it even has an anesthetizing effect. Giving it up would create a virtuous obligation in terms of collective self-discipline, to ensure convertibility and therefore allow access to foreign currencies at any time and for each financial operator of the currency area. This last point was taken into consideration in the declaration of 21 December 2019, which stipulates the passage of UEMOA from the CFA franc to the eco: on the one hand, the principle of centralization of the reserves is maintained but, on the other hand, its management is withheld from the French tutelage. Removing the “external guarantee” also implies a “political revolution”. If the principle of centralization of reserves is maintained while at the same time re-centering their management into another institutional framework, full monetary sovereignty passes from France to UEMOA. And this raises the question of the political legitimacy and institutional solidarity of the organs of the Union.

3. *The issue of external parity.* Parity with the euro or with a basket of the main international currencies has been in recent years the subject of important works that proposed a flexible, or adjustable, exchange rate system, as founded on an index calculated from a basket of currencies. A system of this type is obviously necessary to maintain competitiveness in the event of an external shock: however, it must not be reduced to ensuring a price competitiveness which has to be paid with inflation, which would thwart any effort to increase productivity. The long-term maintenance of such a parity is indeed a crucial political bet.
4. *The management of the reserve account and its remuneration* pose two questions. Historically, the account was managed by the French Treasury, but in practice it was nothing more than the mirror account of the account held by the BCEAO. At the time of the creation of the euro, the EU and the European Central Bank refused to take on the role hitherto played by the French treasury. Nevertheless, it is technically possible to organize a tender process at other financial institutions, for example at the Bank for International Settlements. It is a question of political symbolism. Just like the change of name of the currency, which we have already discussed and which is already underway, such a passage would facilitate the opening of the area to non-French-speaking countries. And perhaps not only would it facilitate this but it would constitute its essential condition. However, the impact of the remuneration on the central bank's balance sheet will require careful consideration, as will the choice of the means deemed capable to ensure total investment security: the quality of the partner is in this case vitally important.

In the medium- to long-term perspective of a single currency of the ECOWA, it should be stressed that the reforms outlined above would have a double impact:

- To get rid of a symbolism negatively branded by history, which will eliminate a separation between French- and English-speaking countries that no longer has a reason to exist in an *African* regional approach. Such an initiative undertaken by the union would give it full negotiating capacity compared to the partners of the ECOWAS.
- To modernize monetary management in order to facilitate the merger of monetary mechanisms (reserves and parity in particular). However, one question remains to be addressed: that of the calendar of the constitution of the currency area.

A two-step extension strategy may emerge later. At first, it would seem conceivable to integrate the potential member countries with an immediate economic advantage and with an acceptable political cost. This would create an embryo of the future currency area of the CEDEAO. However, this implies giving preference to the producers and exporters of agricultural raw materials. In a second step, the enlargement of the currency area to all the countries in the ECOWAS could be taken into consideration.

Calendar sketch

It would be good to respect a timeline inspired by prudence, which could take place as follows:

First, demonstrate that it is possible to ease inflation and deficit thresholds as far as investment policy is concerned.

1. Introduce controlled monetary flexibility.
2. The ability to manage new macroeconomic parameters should be demonstrated for five years before moving towards a monetary sovereignty mechanism.
3. In order to better ensure the new management of the reserves, the guarantee of France

could be maintained for a transition period of five years.

4. Finally, during this period, consider negotiating an extension of the UEMOA currency area to other West African countries that are interested.

The first scenario is based on the enlargement of UEMOA to all the countries of the ECOWAS. However, such an enlargement cannot be separated from a general reflection, and from simulations on solidarity mechanisms between subsets of the currency area, in order to strengthen its political legitimacy and give it economic efficiency. In the longer term, however, this is one of the best ways of boosting intra-regional trade, which will progressively create a synchronization of economic cycles within the ECOWAS area.

4.2. Scenario 2: monetary union with countries that meet the convergence criteria

The convergence criteria for the ECOWAS and for UEMOA (the subset of countries adhering to the CFA franc) are not exactly the same.

The four first-order criteria required by the ECOWAS are:

- A ratio between primary balance and nominal GDP $\geq -3\%$
- An average annual inflation rate $\leq 10\%$ ($\leq 5\%$ from 2019)
- A ratio between the financing of the government deficit by the Central Bank $\leq 10\%$ of the tax revenues of the previous year
- Gross reserves ≥ 3 months of imports

The two second-order criteria are:

- A public debt/GDP ratio $\leq 70\%$
- Variations in the nominal exchange rate $\pm 10\%$

Table 1 – Performance of CEDEAO/ECOWAS members with respect to some convergence criteria

	Primary deficit		Public debt		Current balance	Reserves	Foreign debt
	Ratio to GDP		Ratio to GDP		Ratio to GDP	(bn. \$)	Ratio to GDP
	(%)		(%)		(%)		(%)
	2009-2018	2018	2009-2018	2018	2018	2017	2018
Benin*	-2.4	-2.5	44.7	54.6	-8.9	-	-
Burkina Faso*	-3.3	-3.5	37.5	43.0	-7.5	-	-
Cape Verde	-2.9	-0.6	114.1	127.7	-7.1	0.6	34.4
Ivory Coast*	-1.7	-2.1	52.5	52.2	-3.4	-	-
Gambia	-2.1	-3.4	71.8	83.2	-11.5	0.2	23.8
Ghana	-2.1	-1.4	51.6	59.6	-3.2	7.0	38.6
Guinea	-1.8	-1.0	42.1	38.7	-16.1	0.4	15.4
Guinea Bissau*	-2.9	-4.4	61.0	56.1	-1.6	-	-
Liberia	-3.8	-4.8	36.9	40.5	-23.3	0.5	51
Mali*	-3	-3.9	32.3	36.6	-7.3	-	-
Niger*	-3.9	-3.6	43.2	55.1	-16.3	-	-
Nigeria	-2.4	-2.9	23.0	28.4	2.1	40.5	116.0
Senegal*	-2.0	-1.4	51.9	64.4	-7.2	-	-
Sierra Leone	-3.7	-3.8	57.9	71.3	-13.8	0.5	32.0
Togo*	-2.3	-0.7	69.0	74.6	-7.9	-	-

Source: elaborations by Prasad (2019) on IMF data. Countries marked with a star also adhere to UEMOA.

Table 1 summarizes some performances of the ECOWAS countries, comparing the 2018 performance with the average of the 2009/2018 performances, as regards the primary balance/GDP ratio (first order), the debt/GDP ratio (second order), the current account balance, foreign exchange reserves (excluding UEMOA countries, which have a centralized management of reserves) and foreign debt (only for non-“UEMOA countries, which count it with public debt).”

As we can read in Prasad (2019, p. 58):

the progress made with regard to the convergence criteria has proved to be somewhat modest. In fact, the 2016 ECOWAS Convergence Report [the latest official report available, Authors' note] underlines that in 2016 no country in the region met all six first and second order criteria, with the exception of one country, Liberia. The performance of some countries compared to the first order criteria even deteriorated between 2015 and 2016. For example, the deficit/GDP ratio deteriorated by at least one percentage point between the two years, thus exceeding the threshold, in the case of Burkina Faso, Ivory Coast, Gambia, Ghana, Guinea Bissau, Mali, Sierra Leone and Togo. The dominant economy, Nigeria, has failed to meet two of the six criteria, with an inflation rate and exchange rate volatility above the set thresholds.

More generally, if in the ECOWAS area we look at the performances relating to the primary criteria, we can observe that in 2018, with regard to the budget deficit criterion, the situation deteriorated, since only 5 countries complied with the norm, against 7 in 2017. On the other hand, there has been an improvement in terms of compliance with the inflation criteria and the financing of the fiscal deficit by the central bank, bringing the countries compliant with these criteria to 12 and 14, respectively. The performance concerning gross reserves in terms of months of imports remained stable in 2018, with 14 countries as in 2017.

In general, in 2018 no country met all the convergence criteria, compared to 3 in 2017. Only 2 countries met all the first-order criteria in 2018, against 4 in 2017. However, 11 countries met the second-order criteria in 2018, compared to 10 in 2017. As regards the performance on the secondary criteria in 2018, ECOWAS countries performed better in terms of nominal exchange rate, with 14 countries respecting the criterion in 2018. For the public debt criterion, the norm was respected by 12 countries in both 2017 and 2018.

UEMOA's convergence criteria include three first-order criteria and two second-order criteria. The three first-order criteria are:

- Global government deficit ratio (including humanitarian aid) to nominal GDP $\geq -3\%$
- Average annual inflation rate $\leq 3\%$
- Ratio between public (internal and external) debt, and GDP $\leq 70\%$.

The two second-order criteria refer to:

- Ratio of the public sector wage bill to tax revenues $\leq 35\%$
- Ratio of tax revenues to nominal GDP $\geq 20\%$

According to the 2018 Report of the UEMOA Multilateral Regulatory Authority, in 2018, as indeed in the previous years, the UEMOA countries recorded satisfactory macroeconomic results. However, in terms of nominal convergence, only Guinea Bissau fulfilled the 3 first-order criteria, whereas in 2017 the criteria had been respected by 3 member states. On the other hand, Togo met 3 out of 5 criteria in 2016 and 4 out of 5 in 2017 and 2018 (with the exception of the debt criterion). In 2019 it met all the convergence criteria, distinguishing itself as the only country to comply with the conditions for entering the single currency of the ECOWAS.

See the following table 2 for an overall glance at the performance of the UEMOA countries.

Table 2 – UEMOA convergence criteria, 2018 performance and 2016-2018 frequencies

	Respect of criteria for each country (2018) and performance (2016 and 2017)								Number of countries respecting the criteria		
	Benin	Burkina Faso	Ivory Coast	Guinea Bissau	Mali	Niger	Senegal	Togo	2016	2017	2018
Primary deficit to nominal GDP ratio (humanitarian aid included) Rule: $\geq -3\%$	-4.7	-4.9	-4.0	-3.0	-3.3	-4.4	-3.5	-3.0	0	3	2
Mean annual inflation rate Rule: $\leq 3\%$	1.3	1.1	0.5	0.6	2.1	4.1	0.8	-0.3	8	8	8
Public debt to nominal GDP ratio Rule: $\leq 70\%$	54.2	42.9	48.2	50.1	35.7	45.7	50.4	71.5	7	7	7
Public sector wage bill to tax revenues ratio Rule: $\leq 35\%$	48.6	50.5	41.4	46.8	34.5	36.1	31.8	33.3	3	3	3
Tax revenue to nominal GDP ratio Rule: $\geq 20\%$	13.4	17.4	16.5	9.6	15.6	14.9	16.0	21.0	1	1	1
2016	2	2	2	2	3	2	3	3			
2017	2	2	2	3	3	2	4	4			
2018	2	2	2	3	3	2	3	4			

Source: UEMOA (2018)

Taking into account the differences between the criteria and the actual performances of the countries potentially interested in the new currency, the consideration of this scenario based on convergence criteria requires a calendar which has to be inspired by a gradualist approach. At first, only the countries that have met the criteria will form the union. The other countries will enter later, to the extent that they meet the criteria.

To mitigate the effects of the shocks that could result from the unification process, the institutions responsible for the functioning of the union must be made operational. In the event that they worked well, they could allow for the adjustments needed to absorb the above shocks quickly and appropriately. Good quality institutions can also play two other very important roles, which can strengthen the positive influence of trade liberalization on economic growth.

In the first place, they can alleviate the painful consequences of the adjustment, distributing them fairly between the different components of society, so that none feels its interests and rights are injured with respect to those of others.

Secondly, good quality institutions can give greater legitimacy to the decisions by which certain members of society will have to bear the greater weight of the costs associated with

commercial liberalization, because of the consideration they enjoy. Moreover, the management of foreign exchange export earnings also depends on the quality of the institutions, as does the profitability of the investments made on them.

4.3. Scenario 3: an approach that goes through a common currency

While a single currency is always a common currency, a common currency does not always need to be a single currency. The history of the EPU (Kaplan and Schleiminger, 1989; Amato and Fantacci, 2012) is very instructive with respect to the ability of a “lighter” agreement than that implied by a single currency, to help strengthen the integration process between countries and therefore prepare the conditions for the transition to more intense forms of integration.

Between 1950 and 1958, a clearing house was established between the countries that signed the Treaties of Rome in 1957 for the establishment of a common European market. The performances of the EPU can be summarized in two key data: the doubling of internal trade in the area and the tripling of trade with the USA, therefore internal growth accompanied by an opening towards the rest of the world.

Another important aspect: the EPU finances intra-zone trade without resorting to capital movements but also without preventing them, especially in the form of direct foreign investments. It is certainly compatible with a flexible exchange of the common account unit with other international currencies, on the one hand, and a regime of fixed *yet adjustable* exchange rates between that unit of account and the currencies of the countries participating in the clearing house.

In 1960 Daniel Cabou, first secretary general of the BCEAO, proposed to resume the European scheme for setting up an “African Payments Union”. In 1969, the Egyptian economist Samir Amin made the same proposal in a confidential report, drafted at the request of the then-President of Niger, Hamani Diori (Amin, 1969).

How to reinterpret this scheme within a roadmap for the currency of the ECOWAS? By imagining that countries that are not yet able to join the single currency bind to it through exchange rate agreements. Just as in the case of the mechanisms put in place in the EPU, symmetrical absorption mechanisms of trade balance imbalances could help put commercial surpluses back into circulation within the ECOWAS area, thus stimulating those processes of specialization between economies that are the basis for an increase in intra-zone trade. This is one of the most important economic and political objectives in the integration process.

What could a West African Payments Union become? A way of “buying time” in view of the constitution of the single currency, in the minimum hypothesis. A way of cultivating differences within an integration framework, in the most ambitious hypothesis.

5. Conclusions

The creation of a single currency in West Africa confirms itself as an appropriate and pertinent project, in spite of the uncertainties that arose after the Eurozone crisis and in spite of the many postponements to its introduction. In the current international monetary arena, a single currency of the ECOWAS would offer the countries of West Africa the opportunity to mutualize their monetary means to pursue their common and special objectives. Indeed, the

member countries of the ECOWAS are facing important economic challenges that none of them is really able to face alone.

In the international monetary competition, which today plays a decisive role in the value of currencies, the single currency of the ECOWAS could count on the economic and diplomatic weight of West Africa as a whole, which is far greater than that of each country taken individually.

In the face of fluctuations in the international monetary system, monetary integration can also have a stabilizing role, both upstream and downstream. Upstream, the control structures and prudential arrangements put in place at an international level can prove more effective in reducing exposure risks. Downstream, the principle of solidarity proves essential for monetary integration, especially in order to mitigate the effects of shocks in the most exposed countries, and thus preserve the common currency. In addition, a monetary union can contribute to the increase in domestic trade in the single currency area.

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