



## COMMON CURRENCY IN WEST AFRICAN SUB-REGION: WHAT PERFORMANCE STATISTICS REVEALS AND THE ROLE OF PRIVATE SECTOR IN ECONOMIC STABILISATION

Udeh Sabastine Onyemaechi<sup>1</sup>

---

### Abstract

It was in April 20, 2000, about 24 years ago, in Accra, Ghana, that the leaders of Six West African countries declared their intention to form a monetary union among the non-CFA franc countries of the region by January 2003, as a first step toward a wider monetary union that will include all the ECOWAS countries in 2004. The six (Nigeria, Ghana, Gambia, Guinea, Liberia and Sierra Leone) countries committed themselves to reducing central bank financing of budget deficits to 10 percent of the previous year's government revenue; reducing budget deficits to 4 percent of GDP by 2003; creating a Convergence Council to help coordinate macroeconomic policies; and setting up a common central bank. Their declaration states that, "Member States recognize the need for strong political commitment and undertake to pursue all such national policies as would facilitate the regional monetary integration process. This paper, using a historical approach, examined basic trends in reported data, tracing the performances of the nations for a period of 11 years (2012 to 2022) using the four primary convergence criteria according to the recommendations of 'Optimum Currency Areas theory' (Mundell, 1961), which was adopted by the promoters of the currency integration as the basis for the future prospects of the union. The performance data however, generally did not show evidence of a consistent trend towards the fulfillment of the adopted convergence criteria. The paper also noted the neglect of the private sector which can play major role in economic stability, through competition and recommended that economic managers of the region should convince their governments on the need to reduce public sector domination of the economy by channeling greater budgetary funds to the private sector, as is the tradition in advanced economies, for accelerated growth with stability.

**Keywords:** Currency, West Africa, Statistics, Private sector, Economic Stabilisation.

---

### Related Literature

It was believed that there are boundless economic benefits when nations or group of nations agree to come together and cooperate at various levels; one of such level of cooperation is monetary union, or currency union.

The elimination (Debrun: 2002) of national currencies and their replacement by a common regional currency continues to be a topical subject. It has inspired much research mainly in the European context, but other regions are now considering the advisability of such a project. The reasons behind such drive ranges from wanting to promote regional solidarity and integration to a fear that independent national currency may be subject to destabilizing speculations.

In the book, history of monetary union, chow (2003) traced the various past attempts at forming monetary unions where he mentioned the works of Burns (1927) and meadows (1999) both being renowned authorities in early economic history.

In their works, mention was made of mytilene and phocae as early as fifth century B.C: and Achaean league of third century B.C. both being early European attempts at forming monetary unions.



Meadows (1999) mentioned three types of such unions as top down, bottom up and consenting. From the days of Napoleon down to Roman Empire, all cities states under conquest were forced from the top to use the currency or metallic coins of the conquering state.

According to Bergin (2009) when economists such as Mundell, were theorizing about optimal unions in the middle of the twentieth century, most people regarded the exercise largely as hypothetical. But since many European countries established a monetary union at the end of the century, the theory of monetary unions has become much more relevant to many more people. Monetary unification entails three basic arrangements; common currency, common central bank, and hence common monetary policy\_(Plasmans et al, 2006)

Rendering a brief history of European Union, Stauffer (2009) stated that among the European states, EMU officially stands for Economic and Monetary Union. Other countries also use EMU to refer generally to the European monetary union. EMU is the agreement among the participating member states of the European Union to adopt a single hard currency and monetary system. The European council agreed that this single European market were essential to the implementation of the European Union, which was created to advance economic and social unity among the peoples of Europe and to propel Europe to greater prominence in the international community. In 1979, the European Council adopted the European monetary system, known as EMS, which employed an exchange rate mechanism, or ERM, to encourage participating countries to keep the fluctuations of their currency exchange rates within an acceptable band. The permissible limits of the ERM were derived from the European currency unit, or ECU, a referential currency calculated from an average of the participating countries' national currencies. In 1988, Jacques Delors, the then president of the European commission, chaired a committee which proposed a three-stage plan to reach full economic union, including the establishment of a European Central Bank and a single currency which would replace any existing national currencies. With each stage, the monetary policies of the participating countries would become more closely entwined, culminating in full convergence in the EMU.

The west African monetary institute (WAMI) defined monetary union as an integral component of economic integration and evolutionary process that culminates in the adoption of a common monetary policy by a number of counties ceding sovereignty on monetary matters to a common monetary authority responsible for issuing a common currency. This definition stated that monetary integration may evolve through a number of cooperation arrangements like.

- i. An exchange rate arrangement where limited currency convertibility exists.
- ii. A parallel currency union where national currency coexists with a common currency.
- iii. And a full monetary union where a common central bank exist to formulate and implement a common monetary policy and issue a single currency.

## **OBJECTIVES OF THE STUDY**

The objective of this study is to answer two research questions

1. Does the performance data indicate a tendency towards convergence?
2. Is the public sector playing a dominant role in the economy?



**METHODOLOGY**

The author used historical figures obtained from (4) four primary convergence criteria for a period of 11 years – 2012 to 2022, from the six Anglophone nations seeking economic convergence to determine the readiness of the nations to achieve convergence target. These criteria are:

1. Single digit inflation rate less or equal to 10%
2. Fiscal deficit as a percentage of GDP not above 3%
3. Central banks financing of fiscal deficit less or equal to 10%
4. Gross external reserves not less than 3 months of imports

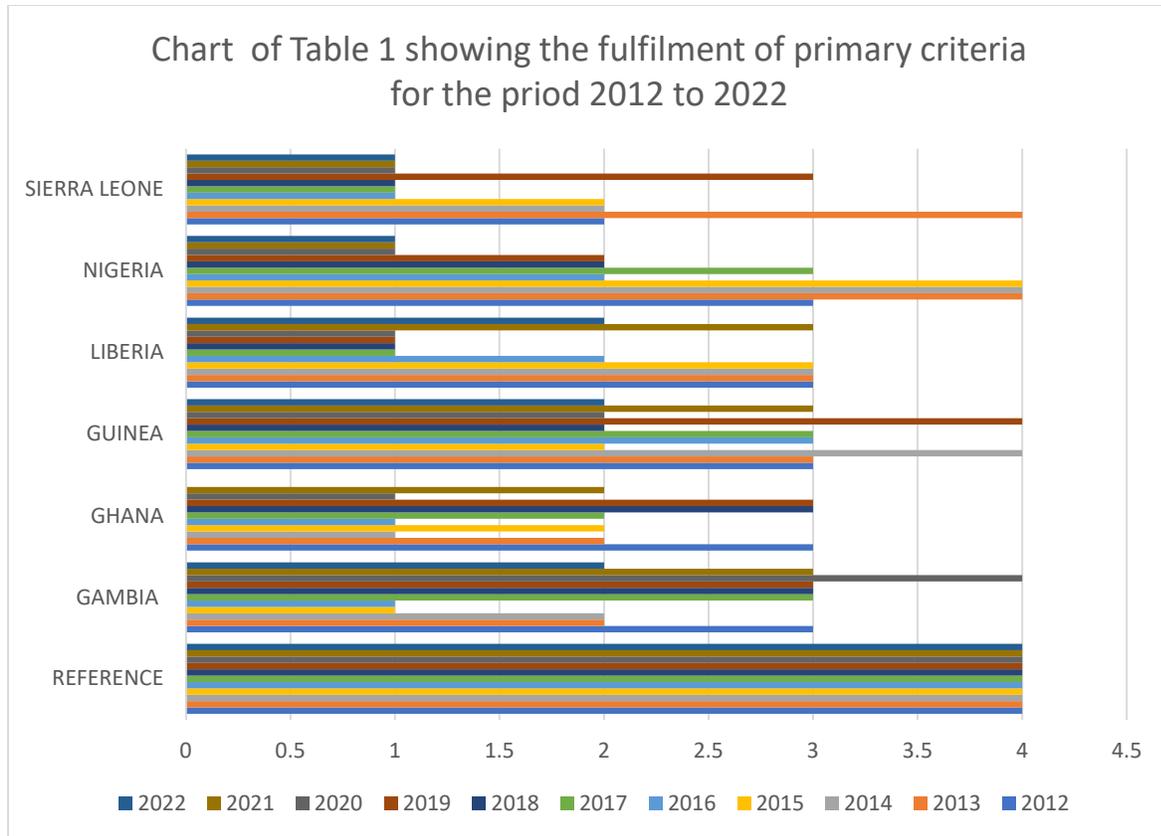
Comparative data from selected economically viable nations using the percentage of transfers/loans to the private sector was also presented and used to answer the second research question.

**DATA PRESENTATION AND ANALYSIS.**

Table 1:

		Table showing fulfilment of primary convergence criteria by WAEMU 6 member nations for the 11 year period 2012 to 2022											
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
AT	RT												
27	Gambia	3	2	2	1	1	3	3	3	4	3	2	
44	Ghana	3	2	1	2	1	2	3	3	1	2	0	20
44	Guinea	3	3	4	2	3	3	2	4	2	3	2	31
44	Liberia	3	3	3	3	2	1	1	1	1	3	2	23
44	Nigeria	3	4	4	4	2	3	2	2	1	1	1	27
44	Sierra Le	2	4	2	2	1	1	1	3	1	1	1	19
Annual Total		17	18	16	14	10	13	12	16	10	13	8	
Regional total		24	24	24	24	24	24	24	24	24	24	24	

Source: WAMI-IMAO Data base 2024



Considering regional performance as shown in the chart, the total number of nations that fulfilled the primary criteria for the 11-year period is 7 as follows:

NATION	YEAR
Gambia	2020
Guinea	2014, 2019
Nigeria	2013, 2014, 2015.
Sierra Leone	2013

If all criteria were met for the period, it would be  $6 \times 4 \times 11 = 264$ .

If 7 was met for the period by 4 nations only, it would be  $4 \times 4 \times 7 = 112$  or 42%.

### THREE YEARLY MOVING PERFORMANCE

From the data in table 1, we can also calculate 3-yearly moving performance, which will reveal the direction of movement towards convergence for the period under study.



Table 2

Showing 3-yearly fulfilment of 4 Primary Convergence Criteria for the period 2012 to 2022

Regional Total	2012-2014	2014-2016	2016-2018	2018-2020	2020-2022
	51	40	35	38	29
Expected Total	72	72	72	72	72

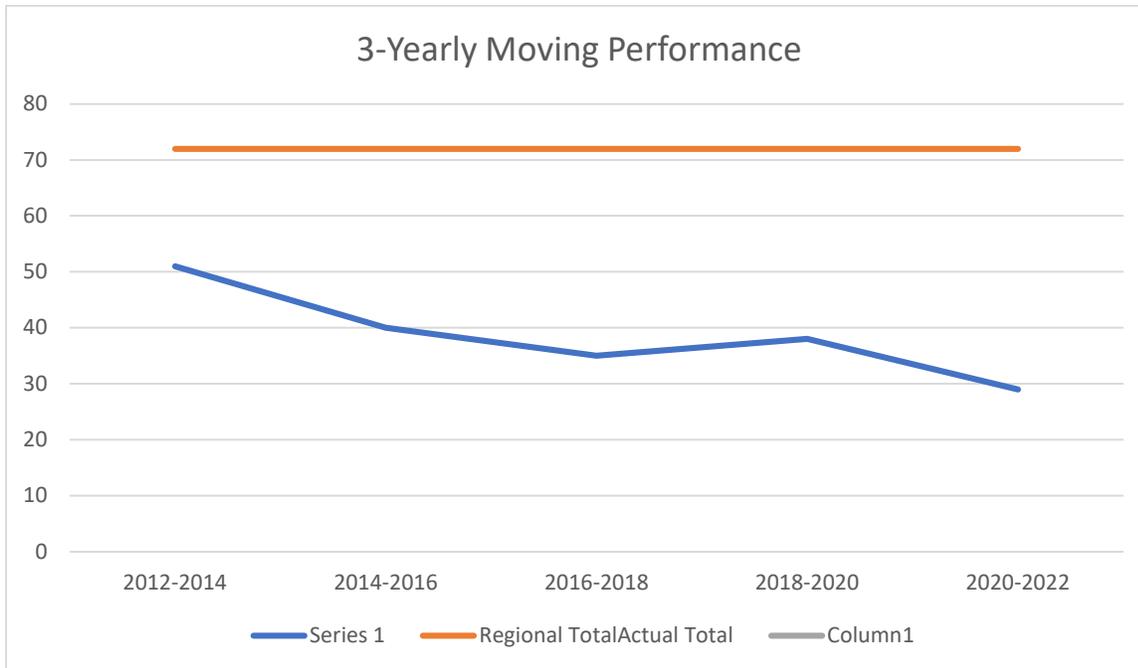


Table 3. Percentage of public sector Loans to the Private Sector As a % of GDP.

ECOWAS	% of Transfers	SELECTED NATIONS	% of Transfers
GAMBIA	9	Austria	85
GHANA	10	Belgium	73
GUINEA	9	Germany	84
NIGERIA	14	Israel	70
SIERRA LEONE	12	Netherland	92
Liberia	9	Italy	75
South Africa	90	Norway	110

Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates. AND World Bank national accounts data, and OECD National Accounts data files.



## **DISCUSSIONS OF RESULTS**

In discussing our results, the evidence gathered from table 1 shows that when compared with the figures and recommendations of past decades, not much has changed. With a percentage performance of 42%, the nation's seeking for the monetary union has shown their inability to tackle or conquer identified national and regional obstacles.

During the eleven year period under study, only four nations were able to fulfill the primary criterion and it was nations like Nigeria and Guinea that was able to fulfill it more than once, Nigeria in 2013, 2014 and 2015. Guinea in 2014 and 2019. Other nations like Gambia and Sierra Leone fulfilled same in 2020 and 2013 respectively.

Attempt to measure the level of convergence using 3-yearly moving performance as shown in the chart of table 2, indicates that rather than increasing tendency towards convergence, the gap between the regional bench marks was rather widening indicating increasing divergence over the period.

On the other hand, table 3 compares the public sector transfers to the private sector as a percentage of the GDP. The wide gap makes a great statement and shows the extent public sector is dominating the economy.

## **RECOMMENDATIONS**

Despite the theoretical promise of a common currency, empirical evidence suggests that asymmetric shocks and divergence in economic policies might frustrate the actualization. This gap between theoretical models (like OCA) and the practical realities of ECOWAS member states underscores the need for a comprehensive feasibility study. Such a study would not only assess whether the macroeconomic indicators meet the required thresholds but also consider the institutional, political, and social dimensions that might affect the success of a currency union.

Removing impediments that contributes to institutional under performance is very vital. This can only be achieved by following Adam Smith's (1776) recommendation of limited government. Across West Africa, the role of governments must be limited to the traditional functions of maintaining peace, security and enforcement of values that promote free competition. As dominance of government decreases, the role of private sector will increase and the issue of income, productivity, employment and stable price level will be addressed. Government is synonymous with corruption, inefficiency, resource underutilization and misallocation. Only the dominance of private sector will stimulate the competition that will drive the respective economies to a stage of maturity and take-off into self-sustenance which will help drive the regional economy to the level of combined economic equilibrium that can accommodate and sustain unionization of any kind.

I will like to refer to the works of Adam Smith, Milton Friedman, F. A. Hayek, Thomas Sowell, Ronald Reagan, Margaret Thatcher, The Heritage Foundation, and Cato Institute.

These authorities and Institutions have spoken and written articles and commentaries on the role of Government in the economy and the potential risks and challenges associated with Government investment and the benefits of private sector led economic growth.



## References

- African Monetary Union. South African Journal of Economics, 82(2), 276-289.
- Bergin P R, (2010), The Dynamic effects of a Currency Union on Trade, Working Paper vol. 2010, University of War Wick.
- Burns, A. R. (1927). Money and Monetary policy in early times. London, K. Paul and co Ltd.
- Chow, H. K. (2003). A history of Monetary Union. Journal of Economic Survey 17(14), 533-557.
- Debrun, Xavier, Paul Masson, (2002). Monetary Union in West Africa, Who might gain, lose and why? IMF Working Papers WP/02/226
- Fe, D. C., Konin, A. C., & N'Guessan, A. M. M. (2024). Economic convergence in the West African Economic and Monetary Union: a new analysis. *Cogent Economics & Finance*, 12(1). <https://doi.org/10.1080/23322039.2024.2308671>
- Friedman, M. (1962). A collection of Essays On Role of Government.
- Giuseppe, F. Mohammed S. (2023) 'Towards Monetary Union In The Economic Community Of West African States (Ecowas): Better Policy Harmonisation And Greater Intra-Trade Are Needed' Journal of Policy Modelling 45(1) 58-73.
- Hayek, F. A. (1949) The Intellectuals and Socialism. The University of Chicago Law Review 16(3), 417-433
- Meadows, R. G. (1999). The International Monetary System: A Look Back and Ahead, Journal of Economic ISSUES, 33(2), 271-283
- Mundell, R. A. (1961). 'A theory of Optimum Currency Areas' American Economic Review, 51(4) 657-665.
- Perspective. Technological Forecasting and Social Change. 95, 163.
- Plasmans, J., Engwerda, J., Van Aarle (2006). 'Sustainability of Monetary Unions: A Stochastic Analysis' Journal of Economic Dynamics and Control, 30(12) 2755-2778.
- Rostow, W. W. (1960) Stages of Economic Growth: 'A Non Communist Manifesto' Cambridge University Press
- Reagan, R. (1982) Private Sector Initiative. White House Briefing for National Service Organization Leaders.



Stauffer, D. (2009) 'Economic Complexity and Growth'. Journal of Economic Issues, 43(1), 35-43.

Thatcher M (1976) Speech in Australian Institute of Directors Launch, Sydney September 15.

Smith, A. (2012) Wealth of Nations. Wordsworth Edition.

Udeh, S.O. (2010) 'Regional Currency: Assessing the Prospects of West African ECO in The Period 2010 to 2020, A study in Comparative Statistics.' Unpublished PhD Thesis of St Clement University.

West African Monetary Institute: <https://www.wami-lmao.org>