



THE NEXT WAVE: AFRICA'S SINGLE CURRENCY

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INTRODUCTION

The introduction of monetary cooperation in West Africa started when the British and French colonies participated in the West African Currency Board (WACB) and the French franc (later known as Colonies Francaises d'Afrique-CFA), respectively during the colonial era. Following independence, the WACB was dissolved as the new Anglophone nations pursued total economic independence by developing their own central banks and currencies. However, to maintain the current system of monetary cooperation, the majority of the newly independent Francophone nations renegotiated with France.

The formation of the West African Economic and Monetary Union (WAEMU) currently known as the West African Monetary Union (WAMU) which was well-known in 1994 as a full-fledged monetary union (initially established in 1962) adopted the CFA franc as the union's sole currency, which has

been tied to both the French franc and most recently the euro. In 2000, countries in West Africa stated their intention to hasten the monetary unification process that had been started in the early 1980s, which was culminated in a two-phase development plan of a common currency in West Africa. A single currency known as ECO was to be introduced by members of the West African Monetary Zone (WAMZ) in January 2015 as part of this planned initial phase. In addition, in order to establish a Single Currency in all fifteen ECOWAS Member States by 2020, WAMZ and West African Monetary Union (WAMU) were to unite during the second phase.

One of the main ideas driving the African Union has been the creation of a Single Currency for the continent. The current regional economic communities (RECs) play a crucial role in creating a single currency. The African Economic Community (AEC), founded by the 1991 Abuja Treaty, anticipates the development of an African Central Bank with a goal to issue a single currency by 2023, a goal that was later extended to 2027 during the First Ordinary Session of ECOWAS Parliament in Abuja. The introduction of this single currency preceded the creation of building blocks of monetary unions in five regional economic communities, namely: the West African Economic & Monetary Union, the Economic & Monetary Community for Central Africa, the Arab Monetary Union, Southern African Monetary Union and East African Monetary Union, all under the umbrella of an African Monetary Union.

Recent economic developments in Europe, particularly the European sovereign debt crisis have heightened the conversation about the West African single currency. Many people today question the reasoning behind the choice made nearly 20 years ago to establish a single currency in Europe. It may still be too soon to tell, but the Euro-crisis has likely reignited the debate over whether the ECOWAS

region needs to adopt a common currency. As the 2015 deadline drew near, the political statements of a number of West African Authorities tended to emphasize challenges rather than enthusiasm for a single currency. A study on the lessons learnt from the Euro crisis by Gabriel Mougani also appears to suggest that efforts to create monetary unions in East and West Africa should be put on hold.

This research by the Ghana International Trade & Finance Conference - GITFiC aims to contribute to the discussion by examining West Africa's benefit of a single currency in light of the growing doubts around the usefulness of a single currency in the region. It also emphasizes the significance of taking a regional strategy to solving West Africa's monetary problems, which cannot be solved by any one of the member state, not even the enormous Nigeria, which currently leads Africa in terms of GDP size. Additionally, it will outline numerous options for monetary integration to show that a single currency is the most advanced type of integration and the best solution to West Africa's current monetary issues.

WHY THE SINGLE CURRENCY?

Immune to Global Shocks

West African member states have been attempting to integrate their currencies for a very long time. West African member states, like the majority of developing countries, are susceptible to monetary shocks brought on by global policy changes in the current international monetary environment, which is primarily defined by the lack of universally recognized standards of good monetary conduct. In such a scenario, only the creation of a single currency will give West African nations the chance to mount a united and effective front against these disruptions. This is especially true given that each nation will

then be able to have a single currency whose value in relation to other currencies will better support its goals for economic growth and job creation.

Deeper Economic Integration

During international monetary discourse, which presently plays a crucial part in currency value such a currency would benefit from the economic and political strength of the entire West Africa, which is significantly greater than the weight that any country of the region can draw separately. While addressing the issue of exorbitant exchange rates related with trade, the development of a single currency region could further assist in the process of deeper economic integration for the continent. Particularly when you consider that there are currently over 44 different currencies in use in Africa. Achieving deeper economic integration through a single currency, the entire region can be treated as a large single market, in turn, increasing the region's global competitiveness, specifically in the era of the AfCFTA.

Degree of Flexibility

In other ways, monetary integration is more flexible and is regarded as being more cautious. The West African Monetary Union (WAMU), which functions largely satisfactorily, is another feature of the West African continent. The macroeconomic stability and economic integration of its members have undoubtedly benefited from this monetary union, even though there is still room for improvement. This is especially true given that its members are resilient to both internal and external shocks and that the level of trade and financial flows within WAMU alone exceeds the average of all intra-African trade. It is therefore difficult to imagine that a West African model of monetary integration that is less comprehensive will be suitable for them. Given these economic and political factors, it is acceptable for West African nations to take the direct route to monetary union. Progress was made in terms of

economic convergence and policy harmonization through this process, but more work still needs to be done. Additionally, this strategy, which is completely in line with the vision of monetary integration mapped out at the level of the African Union, can act as an inspiration and a catalyst for the effort to create a monetary union across the entire continent.

Flexible Exchange Rates

Despite the challenges, there are advantages that should be taken into account when deciding to adopt a single currency. The creation of a common currency has the ability to eliminate any concerns that frequently arise from constantly fluctuating or flexible exchange rates, given the ambitious scope of the AfCFTA. The US dollar and other foreign currencies have long been used in trade. Thus, extra expenditures on exchange rates would no longer be a barrier to intra-continental trade, which is especially significant given how much trade in Africa depends on the American dollar; a foreign currency. Additionally, countries in West and Central Africa would no longer be required to utilize the CFA Franc, which is pegged to the euro, if a single currency were adopted. Gaining the benefits of economies of scale, price stability, and lower costs from government interference in foreign exchange markets; these are further benefits of adopting a single currency zone. Due to the anticipated growth in the volume of trade for goods and services among member states (AfCFTA), countries would be able to benefit from economies of scale while using a single currency. A high growth rate and an increase in per capita income would result from increased trade among the member states. Consequently, transaction expenses would be kept to a minimum. These transaction costs take the shape of exchange rate losses brought on by changes in currencies.

Resolve Conflicts to Ensure Stability

In order to maintain peace on the continent and to safeguard democracy in Africa in the event of a coup d'état, the Africa Union may utilize the single currency as a mechanism to resolve disputes. Furthermore, the continent would be given the authority to act jointly against perceived and real financial and economic aggression from outside forces. The idea behind a fictitious common currency boosting trade is that, agents operating within monetary unions profit from lower costs of economic exchange disruptions related to changes in real bilateral exchange rates, higher price transparency, and other micro-efficiency advantages, and as a result, a greater number of transactions take place.

A seminal study by Andrew Rose found monetary unions to boost trade by almost 300%. Similarly, a study by HM Treasury reported that the entry into the Euro-zone would bring the UK a total increase in trade of 50%. However, a number of subsequent contributions have questioned the magnitude of such effect. For instance, Thom and Walsh found no great decline in AngloIrish trade when the Republic of Ireland joined the Eurozone and evidence from the Irish Currency Board's experience with the sterling pound displayed no significant effects on bilateral trade. Generally, the benefits of adopting a single currency have three categorical dimension namely **single-digital inflation, growth,** and **unity among African Countries.** However, it is impossible to rule out the other benefits.

WAY FORWARD

The Ghana International Trade & Finance Conference – GITFiC, have shown in this research paper that the creation of a single currency is essential to the successful implementation of the African Continental Free Trade Area-AfCFTA. Although there are doubts due to the Euro crisis and the failure to establish the single currency in WAMZ by the deadline, it is still timely and relevant. With the introduction of the single currency, these nations will have the possibility to resolve their myriad monetary problems. The single currency is an opportunity for West African countries and Africa as a whole to pool their monetary resources, which is a prerequisite for pursuing their individual and collective monetary goals in the current international context. West African countries currently face serious externally-created monetary problems that none of them can resolve on their own and where international monetary cooperation mechanisms perform insufficiently. Such is what is currently happening to the currencies of Member States, after a three year Global Pandemic.

It was a very rational option for West Africa to integrate its currencies. In order to win the public's full support and make policy decisions related to the adoption of the single currency that would unavoidably include lifestyle adjustments and adaptations on their side, it is crucial to broadly inform the populace of the project's stakes. Given the variety of monetary regimes in use in West Africa, the problem of exchange regime is not an easy one. They range from the fixed exchange system in the WAEMU countries that is pegged to the Euro to the flexible regime in the WAMZ countries that normally uses the dollar as the reference currency.

The prospects for the rest of the world's political economy should also be given special consideration. The CFA Franc, which is now tied to the Euro under agreements reached between countries using it and France, will be replaced by the West African single currency once it is delivered, along with all other currencies in use in this region of the continent. It goes without saying that economic factors,

namely those concerning France, are of paramount importance. This issue also has to do with how the single currency for West Africa affects other countries. It is important to keep in mind that the adoption of a currency is essentially a sovereign decision in light of these external stakes. Therefore, the desire of member states and the backing of their populaces should come first in the formation of a common currency in West Africa.

It might be possible to expand existing monetary unions in a limited way; this would provide strong incentives for current members to carefully consider the policies of prospective members. Given the general absence of stable macroeconomic policies and fiscal restraint, it is crucial to use the goal of monetary union to promote stronger governance and more restraint. Success also generates success. It gets more appealing for other nations to join as the monetary union expands by including more nations with sound macroeconomic policies.

OBSERVATIONS by GITFiC

The development of ECOWAS's regional integration has increased demand for a single currency. This level of regional integration has sparked a flood of opposing opinions regarding its impact and the exchange rate system on trade. On the one hand, WAMZ countries desire its adoption with a flexible exchange rate, whereas WAEMU nations desire its adoption with a fixed exchange rate linked to the euro. This divergence of views is the central point of our problem,, particularly given that the Ghana International Trade and Finance Conference is aware of how adopting it will affect international trade. At least three important requirements must be met for the Eco (i.e. the Single Currency) to be successfully implemented.

First and foremost, political commitment at the highest levels is essential. The postponed launch date is a sign of the West African leaders' feeble political will. In order to advance the goal of a single currency within a realistic timeframe, it is necessary to establish strong political will that would motivate concrete reforms and policy frameworks. In order to share expertise, align policies, and increase capacity for a currency union, there is also a need for close coordination between domestic institutions (such central banks) and regional bodies like the West African Monetary Institute.

Secondly, West African economies must widen their focus to include regional industrial policy in addition to simply satisfying the convergence criteria. This is required to increase industrial production, which would serve as the foundation for intra-regional commerce, and lessen reliance on commodities windfalls that could cause ad hoc shocks to their economies. However, achieving this goal would necessitate close cooperation in the sub-industrial region's strategy development as well as in the implementation of structural reforms that foster enabling environments, such as building cross-country infrastructure, modernizing institutions, removing non-tariff barriers, and establishing sound policy frameworks.

Finally, a robust political union that places pan-Africanism at the forefront of the agenda is needed to complement the monetary union. As a result, the union should not be politically dominated by nations with larger economies, particularly Nigeria; rather, each nation should have a voice that is heard equally and work actively to advance the bloc. Moreover, it should have a strong system of fiscal insurance, wherein underperforming nations receive financial assistance from performing nations. A more powerful bloc with widespread backing would result from this.

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