Eco: The Future Currency of Cape Verde?

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The roadmap for the creation of the ECOWAS single currency implied the creation of a West African Monetary Zone (WAMZ) which was proposed in 2000, to be carried out in 2003. Initially, six countries committed to a phased programme for the creation of the single currency – Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. It was expected that the WAMZ would merge in 2004 with the West African Economic and Monetary Union (WAEMU), the currency union gathering eight countries using the CFA franc.[1]

In the meantime, Liberia withdrew from the process, and in 2004 there was already talk of the zone's future currency being a reality in July 2005, and circulating for some time together with the CFA franc, until they merged into one single regional currency. In May 2009, the ECOWAS Convergence Council approved a revised roadmap for realising the single currency by 2020.

It was expected, then, that in 2014 the legal and organisational instruments for the creation of the WAMZ in 2015 and the introduction of its currency would be completed with the creation of an ECOWAS monetary union in 2020. Delays in some essential reforms such as, in the domains of statistics, payment systems, liberalisation of capital accounts and effective application of the customs regime, as well as the low effectiveness of the National Coordinating Committees, the existence of several currencies, and the absence of Liberia and Cape Verde within the WAMZ, make this objective difficult for the time being. Also, the effects of the Covid-19 pandemic led to the suspension of implementation of the 2020–21 convergence pact, and recently, on 26 June 2021, ECOWAS adopted a new roadmap to launch a single currency in 2027.[2]

In Cape Verde, until recently, the discussion about regional monetary integration has taken place more in the academic sphere and in restricted forums. However, in recent years the issue has entered the national political agenda when former prime minister José Maria Neves (2001–16) stated enthusiastically in 2014: 'we think we should quickly move forward with the second currency zone and Cape Verde is studying the possibility of joining this second currency zone'.[3]

As a result of this statement, different reactions emerged: some of a markedly Eurocentric nature and even, in some cases, ethnocentric; others were more balanced and in favour of the monetary integration project; and finally, some are located 'on the fence', that is, they do not take a concrete position, waiting to see events unfold.

The Eurocentric Stance Against the Eco

In the Eurocentric field, the position of the well-known economist and researcher João Estêvão stands out. He, purposefully or not, ignores or omits the roadmap that was defined by ECOWAS to transform the region into an optimal monetary zone and uses, paradoxically, non-economic and deeply fallacious arguments to defend Cape Verde's non-adherence to the future ECOWAS currency project:

> the 'deep institutional and political divergences, which are inseparable from the social, cultural and religious differences between the archipelago and most countries in the neighbouring continental region'; the fact that the 'construction of the Rule of Law, and the set of institutions that support the growth of the domestic market economy and its internationalization' are 'much more advanced than in most countries in the West African region'.[4]

In general, João Estêvão, who also puts on the clothes of a sociologist, political scientist and anthropologist, only sees disadvantages in the deepening of Cape Verde's regional integration. He holds the view that these differences 'impel Cape Verdeans towards a model of international relationship centred on the Atlantic which, the more intense it is, the more it contributes to the country's good performance. For this reason, it is an illusion to think that Cape Verdean society and economy will clearly reorient themselves to the African continent, a space that Cape Verdeans barely know, from which they are culturally and religiously distant and with which their economic agents practically do not relate. If this redirection seems unlikely, then what is the point of the country joining the second currency zone project?'[5]

However, his posture denotes not only a lack of knowledge of the ongoing economic process, but also a typical conservatism of the realist culture and North American *Realpolitik*, particularly the 'clash of civilizations' thesis by Samuel Huntington[6] which basically argues that international alliances and cooperation should only occur between states with close civilizational and cultural lines, marginalising interplanetary difference and plurality in favour of hegemonic pretensions of power.

Therefore, instead of looking at this process as a sovereign opportunity for Cape Verde to know and recognise its marginalised Afro-Black heritage and the richness and plurality of the continental political, legal, institutional and cultural reality in order to be able to take better advantage of them, including from an economic point of view, Estêvão and other authors choose to enter a pessimistic and destructive discourse that hides behind an undisguised cultural racism.

This kind of discourse signals the necessity to incorporate theoretical and methodological aspects and references in the curricula that more reliably reflect the plural reality of Cape Verde and the continent in order to mitigate the great ignorance and mystifications that exist on the part of Cape Verdeans in relation to the continent and vice versa derived from various reasons such as the disparate geographical location, different processes of colonisation and struggles/conquests for independence, as well as the persistent colonial mentality.

Fortunately, the Master in African Regional Integration (MARI) of the University of Cape Verde (Uni-CV) has produced knowledge, including theses, on the different ongoing regional integration processes, seeking to illuminate plurality, complexity, wealth, challenges and potential that lie behind them.

The work that has been done within the scope of MARI, and by other researchers and activists, also testifies to the need for greater dialogue between public authorities and public universities and other social actors in order to produce consistent public policies in this area.

Still in the field of those who oppose Cape Verde's adhesion to the future ECOWAS currency, I also highlight the conservative posture of the former governor of the Central Bank of Cape Verde (BCV), João Serra. In 2018, he stated categorically that:

> Cape Verde's accession to the ECOWAS single currency is not worth it, it will not bring benefits that could potentially outweigh the benefits we have now with the fixed regime of the escudo against the euro.

He added:

> Taking into account the characteristics of the Cape-Verdean economy, an economy turned almost exclusively to Europe, 90 percent of our imports come from Europe, 90 per cent of our exports go to Europe, 90 per cent of migrants' remittances come from Europe, 90 per cent of FDI (Foreign Direct Investment) comes from Europe. Cape Verde has no short- and medium-term advantages in not anchoring its exchange rate regime because we have almost no trade relations with Africa, either with the countries that make up ECOWAS or with Africa as a whole.[7]

It can be seen, therefore, that this conservative, Eurocentric current, riddled with colonial continuities in its anti-African discourse, does not intentionally address the possible long-term advantages of joining the single currency because these, precisely, make their arguments fall to the ground.

Even a recent study on the 'Fulfillment of Cape Verde's Specificities in ECOWAS',[8] commissioned by the government, essentially ends up using the same non-economic arguments as the figures mentioned above to advise against entry, at least for the time being, of Cape Verde into the ECOWAS single currency project.

It is true that the study recommends that the Cape Verdean state be aware of the process, participating in the discussions, and giving its contribution in technical terms. It stresses that the adhesion of Cape Verde would imply the abandonment of fixed parity with the euro which, according to the study, is working well. However, the study ends up falling into the Eurocentric and ethnocentric rhetoric of considering that the possible adhesion of Cape Verde 'would be quite contradictory and would entail risks arising from dysfunctional Democratic Rule of Law and political and social instabilities' existing in the sub-region.[9]

The eco supporters

Focusing now on the possible advantages of monetary integration, the current that considers Cape Verde's accession to the future ECOWAS currency to be possible is composed both of those who consider that membership can be together with the leading platoon states and by those who believe that this entry should take place in the long term when the Cape Verdean state considers that the conditions for this are met.

Bissau-Guinean economist Degol Mendes, who has collaborated with the ECOWAS Department of Macroeconomic Policies and Economic Research, is among those who analyse the roadmap, or conditions, imposed by ECOWAS itself to achieve monetary integration. He claims that the ECOWAS currency project is premised on the fact that it is not an optimal monetary zone and that it should make some progress to that end:

> Intending to create a monetary union and knowing that ECOWAS does not constitute an optimal currency area, it became necessary to create instruments and institutions with a view to enabling the creation of a common currency, making the region an optimal currency area. It is within this logic that some activities of the ECOWAS single currency programme roadmap fit. This document contains the tasks to be carried out before the launch of the common currency to the ECOWAS Member States, with a view to minimising the harmful effects resulting from the non-fulfilment of the aforementioned optimality criteria. It is about the need to carry out progressive economic and financial integration to provide a solid foundation for the Community's future single currency, to promote the creation of physical infrastructure and payment systems to boost intraregional trade, to ensure harmonisation and coordination of economic policies, ensure multilateral surveillance of economic and financial policies, on the one hand, and banking and financial activities, on the other. The creation of an appropriate institutional framework that takes into account the reality of member countries are critical points for the success of the single currency battle.[10]

In this context, Degol Mendes himself has already been in Cape Verde as part of a joint mission of the West Africa Monetary Agency (WAMA)/ECOWAS Committee on Multilateral Surveillance with the purpose of 'evaluating the macroeconomic performance of countries and also evaluating performance in terms of convergence criteria under the ECOWAS single currency programme'.[11]

Also, within the scope of the aforementioned MARI, former World Bank Senegalese economist, Diery Seck, gave a conference paper in 2017 entitled 'The future currency of Cape Verde'[12], where he examined in detail the costs and potential benefits that can be collected by Cape Verde if it joined a single ECOWAS currency, compared them with the country's current situation and provided indications of these benefits. He concludes that Cape Verde's future currency would be 'shared' by other countries, most likely in Africa; that is, it could serve as a reference for other countries outside the West African region. He also highlighted the main characteristics of this currency and the criteria that would help determine the list and order of entry of countries into the common currency that would include Cape Verde. As an example, Seck deconstructs the criticisms that the possible adhesion to the single currency would lead to the loss of the gains achieved by this country with the Exchange Cooperation Agreement (ECA) signed with Portugal in 1998.

The Benefits of the Currency Agreement with Portugal versus the Benefits of the Eco

The ECA is made up of three essential characteristics: the establishment of fixed exchange rate parity between the Cape Verde escudo and the Portuguese escudo (and then the euro), a limited credit facility from Portugal and the adoption by the government of Cape Verde of macroeconomic benchmark criteria for member states of the European Union.

The fixed exchange parity of the Cape Verdean escudo (CVE) to the Portuguese escudo (PTE) was initially fixed (in early 1998) at 1 PTE = 0.50 CVE, but in March 1998 this parity was revised to 1 PTE = 0.55 CVE. In 1999, with the entry of the euro, the need arose to adjust the ECA, which led to the determination of the value of the euro in Cape Verde escudos as €1 = 110.265 CVE. In addition to fixing the new exchange rate parity in relation to the euro, the replacement of the Portuguese escudo by the euro did not lead to any other modification in the ECA.

The second element of the ECA between Cape Verde and Portugal was a limited credit facility made available by the government of Portugal to the Republic of Cape Verde in the base amount of €27.434 million, which can be increased up to €44,892 million. The purpose of this credit facility is to reinforce, when necessary, Cape Verde's foreign exchange reserves, thus aiding the external convertibility of the CVE (the shortage of foreign exchange reserves is a situation in which the value of the BCV's net foreign assets is lower than three months of expected imports for the current fiscal year; currently, these reserves represent about six months). In the first ten years of the ECA, from 1998 to 2008, there were eleven withdrawals on the referred credit facility, for a total sum of €54.9 million.

The third element, Cape Verde's adoption of the macroeconomic benchmarks of the Member States of the European Union, serves to assess the direction of Cape Verde's macroeconomic policies and thus also the sustainability of the exchange rate parity.

Compliance with the Agreement is ensured by the Exchange Cooperation Agreement Commission (ECAC), composed of representatives of the governments of both parties, which has the power to oversee the financial operations resulting from the Agreement, as well as monitor the execution of economic policies. Along with ECAC, and under its tutelage, a technical supervisory component of the Agreement was created, called the Macroeconomic Monitoring Unit (MMU).[13]

One of the fierce critics of the possibility of losing the gains of the ACC is the aforementioned João Estêvão who states that 'adherence to the new monetary space, with its own currency, implies the disappearance of the Cape Verdean escudo and, with it, the agreement of foreign exchange cooperation supported by the Portuguese Treasury. And it is not credible that the same conditions of stability, confidence and convertibility can be guaranteed by the new currency. Thus, Cape Verde's adhesion to the putative eco will be an adventure that, in addition to not being supported by any credible study, will replace its currency linked to the euro with one that has little meaning for the development of its economy and its international integration. An adventure that could have disastrous consequences for the country.'[14]

However, the aforementioned Diery Seck argues that Cape Verde can continue to benefit from the gains of the fixed parity with the euro if the future ECOWAS currency starts to have a kind of ECA with the European Union, as happens now between the WAEMU and France. As is well known, the eco will be the result of the merger between WAMZ and the CFA franc, which is historically a legacy of French colonisation, which, especially in recent years, has been under strong criticism due to its mode of operation.

After gaining independence, most of the former French colonies in sub-Saharan Africa remained in a homogeneous monetary unit, whose institutional framework was renewed and structured by a common exchange system. Their currency, the CFA franc, is pegged to the euro. This peg is 'guaranteed' by the French public purse under the Maastricht Treaty. Technically, the procedures are as follows.

First, the French Treasury opens an 'operations account' for the Central Bank of West African States (BCEAO). The same procedure is followed for the CFA franc that is in force for the States of the Central African Economic and Monetary Community (CEMAC).[15]

Second, the Central Bank is obliged to transfer to its operation account at least 50 per cent of its foreign currency earnings. This was the case until the recent reform of the West African CFA franc announced in December 2019 by French President Emmanuel Macron alongside his Ivorian counterpart Alassane Ouattara.[16]

Finally, it should be noted that the governing and implementing bodies of this entire system (board of directors, supervisory board, etc.) include representatives of the French state with veto power and who are paid to preserve their country's interests. This should also change as a result of the reform announced in 2019.

The very high dividends and benefits that France reaps from this agreement compared to its former colonies explain its unwillingness to change the state of affairs.[17]

In the case of fixed parity of the Cape Verdean escudo with the euro, the agreement does not involve, as in the case of the CFA franc, the obligation for the Central Bank to transfer at least 50 per cent of its foreign currency earnings to its account opened at the Central Bank of Portugal.

However, as with the WAEMU, by choosing to link its currency to that of another country, Cape Verde lost part of its autonomy in terms of monetary policy in exchange for price stability and low levels of inflation. However, in this scenario, the state will hardly be able to make a significant leap in its growth and development if it wants, for example, to enter into partnerships with states that are competitors or potentially competitors of the European Union – and which implies, for example, measures of revaluation or devaluation of the Cape Verdean currency to facilitate foreign investment – particularly from Portuguese banking, which dominates the local credit market.

Another Cape Verdean economist, Agnelo Sanches, despite considering that in the short and medium term 'the new currency may not have major implications for the national economy' is of the opinion that a single currency 'will be more beneficial to our economy, which will thus no longer be exposed to the complexity of economic relations supported by a set of at least six currencies [Ghanaian cedi, Guinean franc, Nigerian naira, Liberian dollar, Sierra Leonean leone, Gambian dalasi, six national currencies next to the CFA franc]'.[18] Sanches admits that the eco will be an important mechanism for leveraging the ECOWAS economy, arguing, however, that Cape Verde in its transactions with the sub-region and with the rest of the world should continue to privilege the two most used currencies in international payment (the US dollar and the euro), without the need to use the national currencies of the respective countries, which are not quoted by the Central Bank of Cape Verde.

Basically, in any of the future scenarios (the maintenance of the ECA, the adhesion or not to the eco, which may or may not have a fixed parity with the euro), Cape Verde will face several questions about its monetary policy in the coming years.

A Silent Cape Verdean Government

At the end of this article, it is worth mentioning that the group of those who have been avoiding commenting on the ECOWAS single currency project, or who are 'on the fence'[19] include the government of the Republic itself, except for the aforementioned position of the former head of government in 2014. To date, there is no official government position on this matter. This indecision by the government, which uses the argument that it is studying the file, ends up giving rise to a certain ambiguity that generates (negative) expectations on the part of ECOWAS in relation to Cape Verde.

Adherence or not is certainly a political decision, but the adoption of a firm position on what is intended with the integration in the sub-region is very important so that, legitimately, the organisation can know in which domains it can and cannot count on that Member State. This ambivalent and, for some, opportunistic attitude of the Cape Verdean state, which has seen ECOWAS only as an organisation where it can withdraw dividends, does not constitute a good principle of international and regional relations. It is hoped that the historic distance and conflict between the UK and the European Union in some matters, namely on the single currency, and which resulted in the Brexit, will serve as an example for Cape Verde, in order to avoid a future exit from ECOWAS!

Notes

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3. 'Qualquer um menos a adesão à moeda única Africana', Expresso das Ilhas, 22 September 2018, https://expressodasilhas.cv/economia/2018/09/22/qualquer-um-menos-a-adesao-a-moeda-unica-africana/60147, accessed 27 July 2021.
4. 'A entrada de Cabo Verde na segunda zona monetária da CEDEAO é mesmo inevitável? (I) e (II)', Expresso das Ilhas, 1 February 2014, https://expressodasilhas.cv/opiniao/2014/02/01/a-entrada-de-cabo-verde-na-segunda-zona-monetaria-da-cedeao-e-mesmo-inevitavel-i/41366, accessed 10 July 2021.
5. ibid.
6. Huntington, S., 1996, *Clash of Civilizations and the Remaking of the World Order*, New York: Simon & Schuster.
7. 'Qualquer um menos a adesão à moeda única Africana', Expresso das Ilhas, 22 September 2018, https://expressodasilhas.cv/economia/2018/09/22/qualquer-um-menos-a-adesao-a-moeda-unica-africana/60147, accessed 27 July 2021.
8. The study was presented by the government on 10 March 2021, but is not yet available to the public.
9. 'Estudo desaconselha adesão de Cabo Verde à moeda única da CEDEAO', Inforpress, 10 March 2021, https://inforpress.cv/estudo-desaconselha-adesao-de-cabo-verde-a-moeda-unica-da-cedeao, accessed 2 July 2021.
10. Mendes, Degol, op. cit.
11. 'Missão Conjunta AMAO e CEDEAO para a supervisão multilateral', Newstat (Revista de cooperação internacional), no. 2, pp. 5–7, Instituto Nacional de Estatística de Cabo Verde, 2018.
12. 'ENG promove conferência intitulada "Futura Moeda de Cabo Verde"', https://desporto.sapo.pt/video/1zkMaHglnp2cQoIGsc7k, accessed 18 July 2021.
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14. 'A entrada de Cabo Verde na segunda zona monetária da CEDEAO é mesmo inevitável? (I) e (II)', Expresso das Ilhas, 1 February 2014, https://expressodasilhas.cv/opiniao/2014/02/01/a-entrada-de-cabo-verde-na-segunda-zona-monetaria-da-cedeao-e-mesmo-inevitavel-i/41366, accessed 10 July 2021.
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19. ibid.