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Currency Union as a Panacea for Africa

A New Institutional Framework and Theoretical Consideration

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Introduction

A currency union is a union to which two or more countries agree to surrender their monetary sovereignty to adopt an official currency issued by a Central Bank tasked with formulating and implementing monetary policy. Currency union came to light when there was a need for choosing a suitable exchange rate regime as an improvement on the fixed exchange rate. Comparatively, currency union is superlative to fixed exchange rate due to equalization of price through the laid down nominal convergence criteria and the introduction of a common currency to ensure greater transparency in undertaking transactions (Rose, 2000; Abban, 2020a). Currency union is touted to emanate several gains and has the potential to be disastrous based on the conditionality among member-states. Empirical studies emphasize the main advantages of currency union membership lies with the elimination of exchange rate volatility to increase savings, relaxation of policies that hinder the free movement of persons and capital to improve trade and tourism, price transparency to intensify trade, and the ability to induce greater Foreign Direct Investment (FDI) to stimulate intra-trade flows (Rose, 2000; Micco et al., 2003; Aristotelous & Fountas, 2009; Rodriguez et al, 2012). The key areas that benefit from currency union membership include production, the financial market, the labour market, tourism, the private sector, the political environment among others (Karlinger, 2002; Martinez et al, 2018; Formaro, 2020). On the other hand, the main disadvantage includes the operational cost of adopting a common currency, potential asymmetry of shocks due to fiscal spillovers, and language barrier. Language barrier will not be a major impediment to trade when countries use a common currency hitherto transparency backed by technology will ensure members adjust with one another over time. Also, when greater trade flows are endogenously determined among members, countries will be less exposed to external

shocks. In the argument of Rose (2000), the main facilitator in the stimulation of the gains of a currency union is contingent on the private sector involvement backed by mutual trust and elimination of national chauvinism.

Developed countries with greater contribution to world trade are liable to use sovereign currencies compared to developing countries. Due to the other incentives of a currency union, advanced countries also enjoy the membership of the union. The official documentation of currency union membership began with the European Monetary Union (EMU). The main purpose of the integration was to consolidate the gains of members in international trade, eliminate potential trade distortions affecting pricing, and eliminate extreme nationalism among others. However, the EMU fuelled debt stock due to the substandard mechanism to check compliance and the level of borrowing in the initial stages of currency union membership (Abban & Ofori-Abebrese, 2019). Additionally, the main attributing factor for the crises in the European Monetary Union was the large public sectors heavily financed by external debts and the attractiveness to borrow from the international market. Despite the challenges, trade statistics showed that currency union formation increased the trade flows among members.

In developing economies, the use of independent currencies serves as a trade barrier due to the cost of exchanging one currency for the other. This is intensified by the high demand for foreign currency to trade among developing countries of the same trade bloc. The use of sovereign currencies allows countries to borrow to stimulate employment, infrastructure, and economic growth without strict adherence to macroeconomic restrain. Additionally, one major advantage of the use of sovereign currencies is the ability of countries to devalue to boost trade. However, countries that have a significant contribution to global trade and an optimal level of importation can exclusively benefit from devaluation. Given this, countries that do not contribute significantly to global trade cannot maximize the gains from devaluing their currency and will suffer from the adverse effect of imported inflation if the country is a highly import driven economy. Empirically, studies on developing countries have not been able to measure the exact cost involved in using sovereign currency, due to most transactions are undertaken using foreign currencies hence the high demand for foreign currencies. Therefore, establishing the link

between exchange rate volatility of sovereign currency and trade was difficult to establish over the years. In this background, the cost of using sovereign currency passes through two channels which emanate greater cost when counties are highly import driven. Thus, the additional transaction cost for accepting the sovereign currency and the cost of using foreign currency engaging in international trade. However, the technicality of some sovereign currencies used by some developing countries maximizes the gains from international trade. Thus, if the currency is convertible, there is a greater tendency to ease transaction costs compared to a strict sovereign currency. To adopt a convertible currency, there is a need to have buffers to reduce the volatility of the currencies.

The relatively low contribution of African countries to global trade and substandard buffers makes the currency more volatile therefore a greater tendency of eroding the gains from trade. As a result, investors in developing countries proxy their investment in dominant currencies. A foreign currency serves as the bridge between the two sovereign currencies therefore currency union eliminates the bridge and serves as a direct link between the countries. However, there is a need for preliminaries of the policies before adopting a common currency.

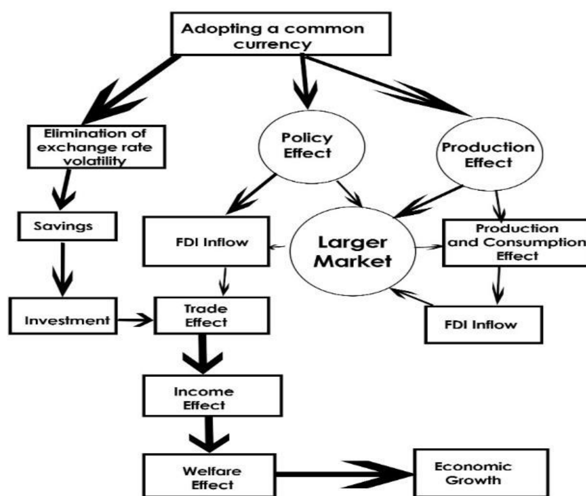
In Africa, producers were faced with a relatively small market size due to protection set by countries while demand for goods is high, which has festered for some decades reminisced from resentments of indigenous producers leading to high imports. As a result, the most prevalent job opportunities in Africa were small-scale businesses. In light of currency union formation, countries will benefit from the elimination of transaction costs hinged on the policy on the common currency, free movement of persons, and the Right of Residence and Establishment. Thus, currency union reduces the heavy reliance on foreign investors to indigenous investors. Under the policy of a common currency, indigenous producers can form cartels and conglomerates to facilitate the diversification of the economies. As a result, import controls can be enhanced with the initiation of a common currency. Additionally, most foreign investors index their profit margin to the size of the market and exchange rate risk, therefore relatively small countries would benefit from improved pricing due to an integrated market coupled with sound macroeconomic stability.

Also, there is a lack of an internally superlative organization empowered to serve as a check on the sovereign governments. The existence of obsolete laws has led to a reactive rather than proactive nature of economic organizations to which African countries hold membership hitherto inhibiting stronger political ties. In this background, the existing framework of integration could worsen the economic stance in the future unless countries integrate to tackle ills among members. The existing framework will likely yield both internal and external adverse effects if further integration is not pursued. In the background of internal effect, the member-states are plagued with several barriers that erode the gains from trade such as smuggling, bribery, and corruption, embezzlement of national coffers, wrong invoicing, security-related issues hitherto trade barriers (Abban, 2020a). Moreover, the resources of most countries are mismanaged and misappropriated with demographic dispensation on a high. Also, the use of sovereign currencies harms the growth of the banking sector by impeding financial inclusion in developing countries where there is a relatively large informal sector. Additionally, the non-convertibility of currencies contributed to the current ameliorated state of economic affairs with the high demand for foreign currencies to facilitate intra-regional trade. As a result, some currencies were convertible at black market price which led to currency hoarding. In the context of external effect, the heavy reliance on foreign direct investment (FDI) inflow from foreign partners exposes the economies to greater external shocks therefore the need for further integration. In this background, the 2008 International financial crises were a major contagion to the effect of FDI inflow to developing countries. More so, the COVID-19 pandemic had derailed supply chains and halted economic activities signaled the exigency for further integration. In this context, most countries experience relatively higher inflation dispersion or volatility beyond the consistent band. Moreover, the turbulence on the change in climatic conditions has a significant effect on agricultural production and the growth of the primary sector which would harm the volume of accumulated reserves (Abban, 2020a). Additionally, there were current distortions in global trade due to some advanced countries stifling their trade policies, and practicing home bias. According to World Data Lab, approximately eighty percent of countries deemed to fail in eradicating poverty will be in Africa. Therefore, to increase the long-term competitiveness of the economies to reduce poverty in Africa, there is a need to

integrate further to form a currency union. *Currency union with a common policy* tends to unearth greater trade potentials among the countries.

Empirically, Countries adopting a common currency benefit from three major channels to impact trade. The threedimensional effect has a stronger impact on the transformation of the economies by curing prevalent ills in the economy in line with improved standards of living.

Figure 1.0: Conceptual framework of Currency Union Effect on Economic Growth



From the diagram above, adopting a common currency reduces transaction costs amongst member-states by eliminating exchange rate volatility. All things being equal, this would lead to increase savings. Can the level of savings be reduced based on the quantity of money printed in the union?

To induce Foreign Direct Investment (FDI), there is a need to reduce inflation variation, exchange rate volatility, public debt to GDP, provide an official channel for foreign investors, greater transparency to reduce the tax burden in the economy, and ensure a sound business environment among others. The main source of FDI inflow emanates from the intra-membership inflows in the currency union and foreign investors. In a currency union, FDI can be stimulated through the policy and production effect. In this background, currency union leads to the formation of a relatively larger market for the

production and consumption of goods and services. This provides an additional incentive for domestic producers to enjoy economies of large-scale production. Furthermore, the FDI inflow could result from integrated money and capital markets to ensure cross-country portfolio diversification. In the same vein, the money market deepens because stocks would be indexed in a single currency *with no additional transaction costs* on the integrated market. For developing countries to maximize the gains of currency union membership, there is a need to consciously outline policies to induce greater FDI inflows.

The strength of a currency union as a panacea for ills can be achieved with an appropriate institutional framework, policies, and trade and transport infrastructure among others. For countries to give up their sovereign currencies to form a currency union, there is the need for the three policies to be implemented effectively with no exceptionality. The policy of free movement of persons, goods, and capital, the Right of Residence and Establishment and Trade Liberation Schemes (TLS). Currency union can help attenuate the level of corruption and other forms of barriers when the Central Bank oversees the activities of the National Banks. Also, the lack of appropriate channels for investors' sprawls corruption-related activities, therefore, forming a currency can provide the needful platform. Additionally, currency union ensures price transparency which equalizes price, therefore, attenuating smuggling by eliminating price differential among members. Furthermore, currency union ensures adequate market information for the allocation of resources. Also, the implementation of laudable policies to eradicate cankers is booted by the opposition parties and victims, therefore, rebelling against the sitting government due to the high illiteracy rate of indigenes. Given this, currency union can provide the platform for continuity of national development projects and policies towards achieving the long-term growth and development of the member-states.
Currency union with a common policy set out an institutional framework to ensure the attainment of a political union. *Currency union with a common policy* can ultimately lead to the documentation and development of tourist sites by developing a common policy variable. In a nutshell, currency union can lead to unearthing the relatively large informal sector through a laid-out diversification policy.

1.1 Institutional Setting

Given this, the study seeks to suggest a new institutional framework to this effect.

The ***Policy Review Team*** should be tasked with reviewing all policies of political parties before the official launch of their manifestos. The reason for the review is to eliminate the favourability of some policies to woo voters by politicians satisfying the short term needs but detrimental to the long-run growth of the region. Therefore, such policies will be heavily scrutinized. The ***Team*** should be tasked with interrogating the ministers, senators among others, on their intended projects with the assigned funds and make the information available to the populace before an election. The developmental projects will be communicated on a website based on demarcated districts, regions, among others that are accessible to the populace. The ***Team*** further ascertains the achieved projects before an election period. The ***Regional Economic Policy Unit*** under the aegis of the ***Policy Review Team*** should facilitate the continuity of good policies and coordinate among member states.

The ***Contract Specialists Group*** under the auspices of the Central Bank should evaluate contracts of the various member-states which are detrimental to the long-term growth. The ***Group*** will also be responsible for social impact reforms and providing the framework for businesses to contribute to the social well-being of the citizens. Also, tasked with the formulation of business laws, harmonization of policies, and business cycle synchronization.

The ***Currency Group*** should focus on policy coordination with the national policies of the member-states to ensure economic growth through financial and macroeconomic stability. Moreover, the ***Group*** will be tasked with monitoring and improving the integrated financial market. The ***Group*** will seek to follow up on the summit report and outline recommendations of up-surging issues of socio-economic importance. It should be comprised of policy analysts and finance ministers.

The ***Commission*** should analyze the convergence of member states in line with the stability pact and other agreed policies. It should access the economic circumstances of the member states and suggests to the council for policy formulation. The ***Commission*** should evaluate political and economic hindrance to trade in the region as well as other important issues of pressing attention. The ***Commission*** should be tasked with the elimination of political monetization, state capture, and reduce in-house partisan disputes. Also, every government must be well scrutinized on budget, disbursement, and conducts with the report available before an election year.

The ***Economic and Finance Council*** should comprise of economists, ministers of finance, and researchers of all member-states representing each member-state in the policy orientation process at the Central bank with the ***National Banks Economic Council*** comprising of 20 economists of the member countries forming the second supra authority with the Governor the highest for transparency and fair policy initiatives among member states. The **Council** should evaluate all activities undertaken by each team, group, and commission.

The ***Evaluation and Investigative Team*** should be tasked with evaluating how the government performed per their manifesto and how funds were disbursed before an election. The ***Team*** will begin by evaluating how funds were disbursed by Senators, Ministers, and anyone funds were channeled through at the constituency level. The policies should be in sync with the national and regional policies and the needs of the people which would be accounted for when the tenure is falling due. The Ministers, Senators among others, are to prepare a proposed plan on how each fund will be disbursed per the needs of the indigenes to serve as a standard for the team to evaluate the progress. The ***Team*** is to create a platform for indigenous contractors of professional backgrounds to bid for the contracts in terms of costs and quality.

The ***Team*** should evaluate, encourage and support institutions' internal integrity management initiatives such as setting up complaint resolution mechanisms for citizens to report any bribery incidents they encounter or service delivery charters outlining the

services offered, the amount of time taken, and fees charged to access the services. Also, the ***Team*** should be tasked with reviewing all activities of the Electoral Commission to ensure political parties are not incongruous with proceedings without malice before an election. Additionally, the ***Team*** should be tasked with the digitization of services to reduce service transaction time and minimize human contact.

Marketing and Innovation Group will be charged with the marketing of the goods produced and suggest ways to improve the branding of the products. The ***Group*** should reach out to prospects, investors, customers, and maintaining a high standard brand. The ***Group*** will serve as an intermediary between the customers, investors, and producers to ensure efficient communication to all related parties and coordinating the marketing system. This can be easily achieved through some digitalized coordinated cross border activities. The ***Group*** should advice the indigenes of the prices of extractive minerals and how to get the best deal from selling to the government. Additionally, the ***Group*** should be responsible for culminating innovative ideas and creative inventions to be heavily financed and marketed for the domestic and global market.

Regional Human Rights and Drug Trafficking Unit should be under the aegis of the ***Security Coordination Group.*** The ***Unit*** should be tasked with mapping drug traffic routes, interrogate culprits on the acquisition route, and abolish all drugs that are detrimental to human health. The ***Unit*** should be tasked with undertaking checks at vantage points and equipped with the necessary tools to enhance the effectiveness of the department. The ***Unit*** should digitalize all drugs categorized as illegal, conditional use among others on a common platform, and effectively communicate the health implications to the populace. Also, the ***Unit*** should be charged with investigating the authenticity of drugs sold on the market to avoid the sale of complicated health drugs.

Labour and Wage Group should be responsible for setting out the regional minimum wage and resolve labour-related issues resulting from the integration. Also, it should focus on integrating the labour markets of member-states and resolve labour market pressures. In

this background, the ***Group*** should be tasked with initiating policies that will enhance the level of savings of labour and design a policy framework for showing the various component of the unemployed populace to effectively map with available vacancies within the region especially related projects undertaken.

The ***Education and Training Group*** should be tasked with grass route education on the need for some practices to be curtailed. The team is to advise the populace on how their direct and indirect behaviours affect the economy as a whole. The ***Group*** should devise active policies to involve citizens' vigilantism towards keeping the environment safe for living. The **Group** should be in consultation with the populace on the needs of the populace as well as acquiring information for policies implemented to ensure improvement in the policy delivery.

Real Estate and Planning Evaluation Team should be tasked with outlining standardized plans to put up buildings capable of housing people without land wastage. The ***Team*** should map out locations for the government to put up buildings as a housing unit for indigenes with dilapidated buildings whiles making room for people to stay. The purpose of the ***Team*** is to reduce the adverse effect of land wastage as well as reducing the size of productive lands to stimulate economic growth.

Government Specialists Group should be tasked with mapping out unproductive arable lands and evaluate the possible primary sector activity that can be undertaken on the land without been left in a deplorable state. The ***Group*** should be tasked with ensuring negotiations with owners of the resources and ensuring a suitable livelihood for persons of the status quo. In this view, the owners of the resources should be well briefed and considered in any adjustment in the decision. The ***Group*** will be mandated to have consultations with the indigenes and traditional leaders.

The ***Sanitation and Environmental Control Unit*** should be tasked with devising innovations for the disposal of waste and reducing the level of waste in the environment. The ***Unit***

should be tasked with the protection of water bodies, land, and air. Any act that is detrimental to the environment should be abolished backed by law. The ***Unit*** should be responsible for initiating academic competition among students to ensure knowledge is obtained to develop an appropriate and efficient policy variable to extirpate the effect of pollution and damages.

Education Review and Reform Team should be tasked with introducing courses that have a direct effect of eradicating the regional problems as well as addressing the shortfalls and needs notably on unearthing the large informal sector, trade and transport infrastructure, policies on savings, capacity building among others. The ***Team*** should be tasked with documentation of academic innovation and creativity by assigning the patent right to inventors. Technology should be practically executed as a precondition.

The ***Electioneering Team*** should be tasked with undertaking elections. The possible candidates to serve as Electoral Commissioner should be suggested by the incumbent government but highly assisted by the ***Team*** and other commissions. The ***Team*** should devise policies to contain staunch political affiliates from exhibiting unlawful political tensions. Every year, the ***Electoral Commission*** should open a portal for indigenes of the constituent to assess their Member of Parliament. The specific amount given for the developmental project should be accountable for per the standards outlined for the funds to be used. The ***Team*** should evaluate all costs involved in the electoral processes.

The ***Investment Monitoring Group*** should be tasked with outlining formal channel for foreign investors to avoid corruption blotted contracts. The ***Group*** should be tasked with partnering domestic investors with foreign firms to undertake the task. The ***Group*** will be tasked with assigning rule of origin to countries heavily funded to maximize production. The ***Group*** should be tasked with the implementation of the Common External Tariff (CET). Additionally, the ***Group*** should monitor and supervise the even spread of investment across member states.

The *Database Management and Analysis Team* should be tasked with synchronizing the database for all citizens from childbirth. The **Team** should be tasked to compile all databases including occupation, residence among others. This database will automatically drift the populace of voting age to the Electoral Commission platform. The ***Team*** should be tasked with analyzing the trends of the data for policy purposes.

The ***Financial Market Coordination Team*** should be tasked with integrating the financial markets of member-states. Initiating policies that are suitable to induce foreign investors and ensure greater portfolio diversification among the populace. The ***Team*** should educate on the need to invest in the financial markets as a platform for indigenes to maximize gains from their savings. They should register potential financial institutes on the market for indigenes to invest in.

The ***Fiscal Coordination Team*** should focus on the effective coordination of fiscal policies. Effective fiscal policy coordination would be a tool for recovering from idiosyncratic shocks. In this context, the ***Team*** should be responsible for cross-border fiscal transfers to countries hit with bad shocks. The ***Team*** should be charged with the evaluation of funds needed to help attenuate the effect of shocks and the coordination of budget evaluation and allocation. Also, the ***Team*** should help member states with huge budget deficits devise policy towards deficit reduction.

The ***Research Group*** should be tasked with undertaking research concerning policies that are likely to have a favorable effect on the growth. In this background, the focus should be on improving transparency and diversifying the economies. The ***Group*** should consist of a maximum of 20 members tasked with diverse research fields with additional external two researchers well vest with the field of interest.

The ***Regional Private Investors Coordination Team*** should focus on mobilizing resources and know-how on private sector development. The ***Team*** should comprise of major stakeholders in the private sector and the indigenous investors to devise measures to

expand and effectively coordinate with the pressing needs in line with regional policies to ensure efficient production level to help in the diversification process of the economies. In line with ***Producers Association of the various RECs***, tasked with producing the basic needs and other products that repatriate greater outflows. The ***Association*** should form a cartel of indigenous producers of diverse production capacity who can be heavily funded and supervised. The association determines the path to which FDI should be channeled to enhance trade.

The ***Security Coordination Group*** should devise formal approaches in handling security-related issues. These should include all security agencies and stakeholders to ensure transparency in executing duties. The ***Coordination Group*** should be assigned with a quarterly briefing of security-related events and measures laid down to settle the unrest.

The ***Implementation Committee*** should focus on the efficacy of monetary policy and initiate policies of welfare improving as well as reducing the leakages of institutional weakness for better policy effect on the economies. Also, the ***Committee*** should be charged with the settlement of trade disputes since an increase in trade volume lead to relatively tout de suite trade disputes and labour market pressures. Also, it should focus on integrating the labour markets of member-states.

The ***Debt Evaluation and Strategic Committee*** should be charged with devising methods in attenuating the stock of debts and the rate at which the level of debt increases. The ***Committee*** should be in charge of foreign assets evaluation and devise strategies to increase the stock of foreign assets. Given this, the value of the currency will be assured of some level of stability. Also, instituting new debt management initiatives by allocating new debts to projects of long term benefits to the continent.

The ***Aid and Investment Review Committee*** should monitor and evaluate the superlative motives behind the influx of foreign assistance and its implementation. Furthermore, the

Committee should be charged with examining the channels of aid and investment and execute strategies of benefits to the parties involved.

The ***Common Market Committee*** should be tasked with evaluating exports to the member-states and the rest of the world at large. The ***Committee*** should be tasked with the pricing of products originating from the continent. The ***Committee*** should be tasked with branding and adding value to existing raw materials.

Tax Evaluation and Management Committee should be tasked with the formulation of tax reforms, exposing the large informal sector by increasing the tax base, tax net and issuing tax compensation plans for countries adversely affected by integration. It should publish a report on domestic revenue collection and audit all tax authorities.

Disease and Epidemic Control Unit should be tasked with all cases relating to the health of persons, agricultural-related diseases, outbreaks, droughts, and related research into country-specific challenges in the health of persons, related to crops, and measures to control the spread of diseases. They should be tasked with forecasting the potential environmental changes and tasked with relevant solutions to attenuate the adverse effect of expected economic events.

Migration Evaluation and Review Team should be tasked with the movement of the citizenry. The ***Team*** should enhance regulation in the movement of people and duration spent within a country as well as all migration-related activities including database. This is necessary for policy purposes and dispensation of resources.

The ***Infrastructural Evaluation Team*** should be responsible for evaluating the necessary loopholes in the infrastructural setting and devise measures for country-specific efforts towards bridging the gap. The ***Team*** should also be responsible for resolving border problems. In conjunction with the Central Bank, should create a ***Project Coordinating***

Group to ensure projects are undertaken with transparency and efficient corporation and with ***a sub-Group*** evaluating the progress of the national projects.

Regional and National Coordination Group should be tasked with the purchase of produce from farmers either at farms or transported to the institution. This produce will be directed to manufacturers to transform and package the raw materials to prevent wastage. Additionally, the ***Group*** should be tasked with the pricing of lorry fares among members. The ***Group*** should be introduced to address issues on the medieval informal sectors that cannot be covered by the system and institute relevant non-government institutions to promote greater integration at the micro-level. The ***Group*** should provide greater incentive to expand and grow such small-scale businesses to be enrolled and covered on the regional base. Also, delineate measures of reducing transaction and production costs for these businesses to ensure competition. These institutions should be supported by credit packages to raise the level of output.

The ***Summit*** should set the economic predilections for policy initiations to improve upon competitiveness and evaluate the convergence presented by the ***Monetary Institute*** for evaluation and policy dialogue. The ***Summit*** seeks to assemble all leaders in the region for prospective growth and evaluation report and the way forward for the continent.

Currency union (Economic and Monetary Unions)

Recent growth rates recorded from 2016 to 2019 shows that Africa failed to achieve the 8th Sustainable Development Goal of 7% growth target, therefore, substandard impact in the poverty reduction process with about 49.5million people expected to reach extreme poverty in Africa due to the lethal effect of the Corona Virus disease according African Development Bank (AfDB). In light of this, currency union is touted to improve economic stance and alleviate the level of poverty. In modern times, currency union have evolved and have a compassed effect on the sectors and institutions of the economies to stimulate growth. The main goal of pursuing currency union in Africa was to boost trade among member states. In this background, intra-regional trade in Africa was about 15.5% compared to 14.6% of Latin America and the Caribbean, 54% for America, 59.6% in

Asia, and 68% for Europe (UNCTAD database, 2020). On average, the performance was way below the 54.5 % of developing countries of the world according to UNCTAD. According to the International Monetary Fund (IMF), there are currently four (4) currency unions in the world namely; The European Monetary Union (EMU), the West African Monetary and Economic Union (WAEMU), the Central Africa Economic and Monetary Community (CEMAC), and the Eastern Caribbean Currency Union (ECCU). In this background, there are two currency unions in Africa namely: the WAEMU and the CEMAC forming the CFA zone. The CFA zone consists of eight West African countries and six Central African countries namely Burkina Faso, Benin, Togo, Mali, Senegal, Cote d'Ivoire, Guinea Bissau, Niger, Togo, Gabon, Equatorial Guinea, Republic of Congo, Cameroon, and the Central African Republic.

Empirically, the EMU was not a good candidate to form an Optimal Currency Area due to failure in the achievement of some of the criteria, however, adopting a common currency facilitated convergence (Komárek, 2002; Vrnáková and Bartušková, 2013). Also, studies have shown that the Eastern Caribbean Currency Union (ECCU) was an Optimal Currency Area (OCA) due to the use of the East Caribbean Dollar as a common currency (Zhao & Kim, 2014; Proczek, 2018). Other studies have shown that the CFA zone was not an Optimal Currency Area (Zhao & Kim, 2009). This is attributed to the pegged two CFA Franc (XOF and XAF) among members within each categorized monetary union and then pegged to the Euro which exerts external influence on the CFA. The external peg facilitates trade among the WAEMU and CEMAC, however, it also stimulates the demand for the foreign currency to trade which compounds the valuation of the foreign currency in the global foreign exchange market and exerts relatively downward pressure on the domestic currency. Therefore, the practice of a fixed exchange rate in a currency union retards the attainment of an Optimal Currency Area (OCA) and attenuates the gains for adopting a common currency. Also, the adoption of a common currency with sound macroeconomic fundamentals ensures the attainment of an OCA. In this background, the OCA shows the convergence of some variables and the potential of countries to converge when a currency union is established. In conclusion, the technical aspect of a currency is key to its performance among other currencies than its face quality.

1.2 Background to forming a Currency Union for Africa

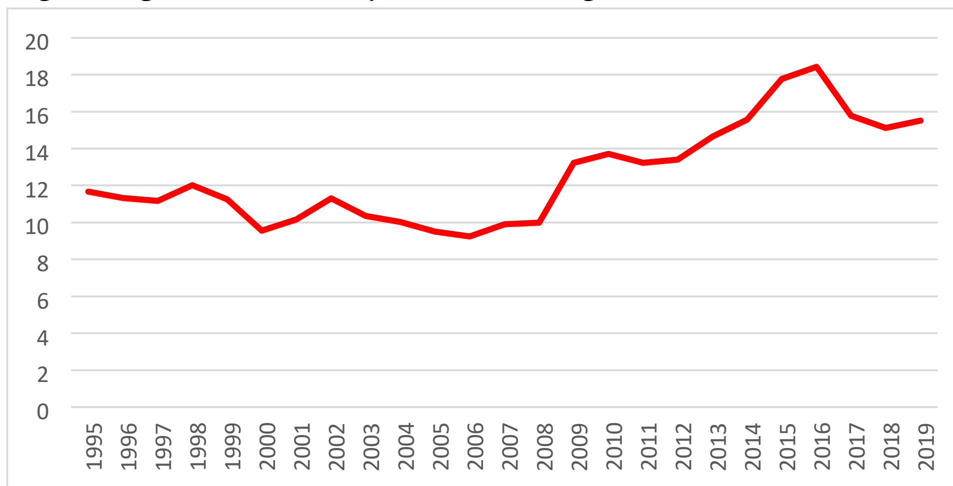
The blueprint towards forming a currency union in Africa was the Abuja Treaty signed in 1991 and officially set up in 1997. The treaty, under the Lagos Plan of Action for Africa development in 1980, was set out to integrate African countries to stimulate trade flows with the creation of the various Regional Economic Communities (RECs). The RECs were the building blocks in the integration process as contrived by AU. The goal was to communicate the aims of AU on a regional basis to achieve a common currency for the entire region by 2028. The bond between AU and the Recs was mandated by the AU constitutive act and the Abuja treaty, and steered by the protocol on Relations between AU and RECs of 2008; and the Memorandum of Understanding (MoU) on Corporation in the Area of Peace and Security between the AU, the coordinating Mechanisms of the Regional Standby Bridges of Eastern and Northern Africa and the RECs.

The Protocol created a link between the African Economic Community and the RECs. The entire continent was divided into eight RECs by AU namely; East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West Africa States (ECOWAS), Arab Maghreb Union (UMA), Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), Community of Sahel-Saharan States (CEN-SAD) and Intergovernmental Authority on Development (IGAD). The creation of RECs led to easy implementation of regional economic transformation policies in Africa such as NEPAD in 2001 and the AU Agenda 2026 initiated in 2013 that seeks to accelerate past and present continental initiatives for sustainable development in the next 50 years. The first stage was the creation of the RECs to pursue policies towards integrating countries by 1999. The second was to harmonize and increase intraregional trade by 2007. The third stage was to create Free Trade Area (FTA) and Customs Union by 2017. The fourth stage was the African Customs Union by 2019. The fifth stage was to create a Common Market by 2023 and finally an African Economic and Monetary Union by 2028. Currently, there are several proposed currency unions in Africa using the RECs as the building blocks namely; the Economic Community of West African States (ECOWAS) of which the WAEMU is a part, the East African Monetary Union (EAMU), the Southern African Monetary Union amongst others.

1.3 Trade in Africa

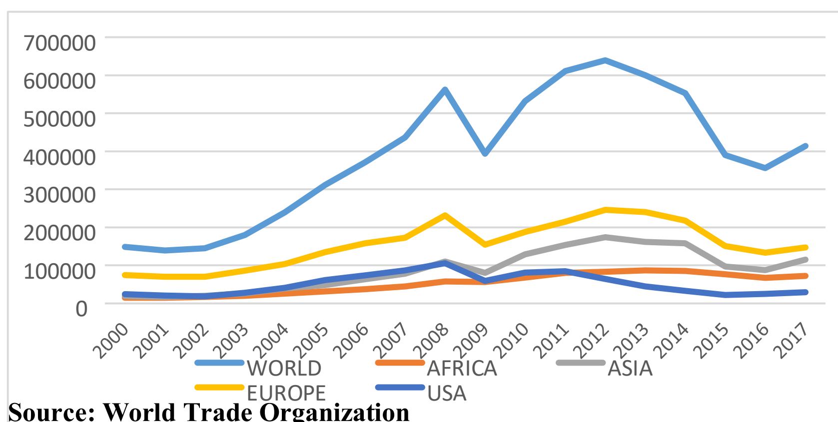
The shadow economy constituted a large chunk of trade on the continent with price differential and relatively small production size the main attributing factor for smuggling and tax evasion among others. The numerous existing trade barriers accrued large revenue flows to the countries, however, impede greater trade flows. The cost of losing revenue due to the removal of trade barriers was a key impediment to intraregional trade agreements notably in countries with a relatively larger market.

Figure 1. 3.1: Trend Analysis of intra-regional trade in Africa



From figure 1, the trend shows that intra-regional trade has been consistently below 20% of the total trade of the continent. This is attributed to the greater trade costs associated with trading with one another as compared to advanced countries and the poor diversification of the economies among others.

Figure 1.3.2: Trend Analysis of Africa Trade with the Rest of the World



Source: World Trade Organization

From figure 2, Africa trade about two times more with Europe than within its members from 2000 to 2017. In 2008, the international financial crisis took a toll on the volume of trade affecting trade patterns and that shows the decline in the volume of trade in the world as a whole. From 2000-2017, Europe remained the most important trade partner followed by Asia and the United State of America respectively. From 2012, the level of trade among African countries was higher compared to the United States of America. The decline in trade of the United States with Africa could have a relative adverse effect on the currency performance of African countries. This could partly account for the worsening performance of the currencies against the US dollar due to relatively greater unilateral demand for the dollar by African countries to trade with the rest of the world.

1.4 Comparative Analysis of Existing Currency Union

The CFA Zone, the Eastern Caribbean Currency Union (ECCU), and the European Monetary Union (EMU)

The CFA zone is the oldest currency union in the world and notable for stable macroeconomic performance in Africa (Gulde & Tsangarides, 2008; Abban, 2020a). The France African colonies known to be the Colonies of Françaises d'Afrique franc (CFA franc) was renamed to 'Communauté Financière Africaine' in West Africa and 'Coopération Financière en Afrique Centrale' in the Central African states after the colonies gained independence. Formerly, The CFA zone was a much larger geographical coverage compared to its current membership, however, some countries opted out for several other reasons. Saint Pierre and Miquelon islands, the Reunion Island, Comoros, Mauritania, Equatorial Guinea, Algeria, Morocco, and Tunisia were a good case in point (BlochLaine et al., 1956; St. Mark, 1964; Yansane 1984, Neurrisse 1987, Vizy1989). Currently, the CFA zone is made of 14 countries and the Islamic Republic of Comoros, characterized by two independent currencies; XOF and XAF dependent on the treaty with France. The conditions about the agreement with the WAEMU countries were; at least 20% of sight liability to be insured by foreign exchange reserves and 50% of foreign exchange reserves to be held in operations account in the French treasury to allow for the convertibility of the CFA to the Euro. The Eastern Caribbean Currency Union (ECCU) is made of eight island countries namely Anguilla, Antigua and Barbuda, Dominica,

Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. It is the smallest currency union in the world with a population of less than a million people as compared to the CFA Zone and the EMU (IMF, 2013). The European Monetary Union (EMU) is the largest currency union in the world made up of 19 countries forming the Eurozone namely Austria, Belgium, Cyprus, Estonia, France, Finland, Germany, Ireland, Greece, Latvia, Lithuania, Italy, Ireland, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Comparatively, the CFA currencies (XOF and XAF) of the monetary unions, issued by the BCEAO and BEAC, are pegged against members before pegged to the Euro, which operates a fully convertible currency supervised by European Central Bank. The Eastern Caribbean Currency Union (ECCU) uses the East Caribbean dollar, issued and supervised by the Eastern Caribbean Central Bank which is pegged to the US dollar. Geographically, the far-flung members of the WAEMU from the CEMAC hitherto having non-binding trade policies, below par connectivity and non-members in between the two monetary zones reduced the purported gains from currency union membership as compared to EMU whose members are closely connected. In light of the argument, the ECCU members experience fragmentation which poses logical challenges in facilitating trade. Additionally, the CFA zone is a much looser political union due to the relative political instability and weak governance with substandard political binding laws in accountability, control of corruption, and a unified political decision among others as compared to EMU. The ECCU has achieved some appreciable degree of a political union even though more complex in nature. Additionally, the CFA zone was able to navigate asymmetric shocks than the EMU due to the relatively smaller size of the countries and the restrictiveness to tremendously borrow to finance budget. The island countries of ECCU are exposed to shocks notable are interminable natural disasters and easily navigate to avoid the collapse of the union.

1.5 Measuring the Efficacy of an Economic Policy (Abban Policy Weighted Index (APWI))

In Africa and the world at large, measuring the efficacy of a policy is a major topic of discourse. What makes a very good economic policy? The incumbent governments are often evaluated based on their promises made through their manifestos. However, some

policies have a much more grounded economic effect on the economy as compared to others therefore evaluating per promises is a necessary but insufficient condition. A strong economic policy corrects economic distortions of the past, builds capacity in the present, and has the potential to stimulate economic growth and development in the future. In this background, a policy that seeks to address past distortions but does not build capacity should be weighed 1. A policy that corrects past economic distortions and builds capacity ought to be weighed 2. Finally, a policy that binds all three criteria ought to be weighed 3. If the policy corrected a past economic distortion and led to economic growth, it is still weighted 1 because it better exposed the economy. Furthermore, policies that were promised but renege ought to be weighted as well. Therefore, the sum of all policies multiplied by their weights divided by the number of policies then compared to a benchmark. To develop a strong benchmark, there is the need to evaluate per the initiated policies of the two successive past governments of the country.

1.6 Proposed Currency Unions in Africa and their performance based on the OCA Criteria

1.6.1. *Economic Community Of West African States* (ECOWAS)

Author	Methodology	Emphasis (OCA Criteria)	Results	Author's Remark	Proposed Solution
SirehJallow(2013)	VAR and cointegration	Price similarity and shocks	There is convergence in price and asymmetric shocks	VAR showed not an OCA, Cointegration showed otherwise.	Macroeconomic convergence, a common currency, credit transfers, intense trade through diversification,
Mati et al (2019)		Price Similarity and Shocks	Asymmetry of shocks	Not an OCA	Intensifying trade to reduce external shocks

					accompanied with sound monetary and fiscal policies
Egbuna et al (2019)	An OCA index	Real convergence (business cycle synchronization)	Some countries exhibit strong convergence, others moderate, and some exhibits slow convergence	ECOWAS should adopt a gradualist approach in the formation of the currency union therefore not an OCA	Intensifying trade through diversification of the economies
Kamara (2015)	cluster analysis	Similarities (price and shocks)	Countries are heterogeneous in diverse ways and intra-trade is not adequate to yield the benefits expected from the union.	Not an OCA	Countries of greater external shocks will not form an OCA unless the external influence is cushioned by internal arrangements to stimulate trade
Habimana et al. (2020)	Waveletspectra clustering	Business cycle synchronization	Not an OCA	The ECOWAS should incorporate a risk-sharing mechanism	Empowering the possible periphery countries to increase their involvement in international

					trade through even distribution of credit facilities and skilled personnel
Abban & Ofori-Abebrese (2019)	The Gravity model of international trade	Endogeneity	Trade creation therefore OCA ex-post	Facilitate nominal convergence and provide buffers to reduce exchange rate volatility	Consolidate buffers and ensure sound monetary and fiscal policies to pursue currency convertibility

1.6.2. East African Community (EAC)

Author	Methodology	Emphasis (OCA Criteria)	Results	Author's Remark	Proposed Solution
Redda et al. (2017)	Descriptive and Comparative Analysis	Trade Openness	Members are not open to international trade	Therefore not an OCA	This is a policy inducing effect. The need to practice sound trade practices, eliminate non-tariff barriers, sound macroeconomic

					execution, and strong political will
Cárcel et al. (2014)	Fractional Integration	Inflation	There is heterogeneity in the inflation rate.	Therefore, do not form an OCA	Contrarily, forming a currency union will eliminate inflation bias to stimulate stability.
Caporale et al (2018)	GPPP	Business cycle synchronization	Cointegration of exchang e rates	OCA is achievable in the formation of the currency union	Diversification of the economies will induce greater trade flows hitherto removal of all barriers to trade
Muthui (2016)	GPPP	Exchange rate	The members are not cointegrated. Also, there is a strong political will to form a currency union	Not an OCA	Currency union eliminates exchange rate volatility so the possibility of forming an OCA

Nyamrunda (2013)	Gravity model of international trade	Structural Harmonization and responses to shocks	EAC responds symmetrically to shocks,	Is an OCA	Intensifying trade flows will speed up convergence
Gitimi (2018)	Macroeconomic Convergence Criteria (MCC) and GPPP	Inflation (price)	a long-run convergence among members	OCA is achievable	Stringent policies will ensure convergence in the short-run
Umulisa (2020)	The Gravity Model of international trade	Trade flows, business cycle synchronization, inflation	The need for relatively greater business cycle synchronization	OCA is achievable and EAC has a positive and significant effect on intra-regional trade	Sound Macroeconomic fundamentals will inure greater benefits to the members.

1.6.3 *Southern Africa Development Community* (SADC)

Author	Methodology	Emphasis (OCA Criteria)	Results	Author's Remark	Proposed Solutions
Zerihun & Breitenbach (2017)	Generalized Purchasing Power Parity (GPPP)	Price, exchange rate, Business Cycle Synchronization, and shocks	Slow convergence among memberstates and the potential of posing unstable	OCA is achievable when Angola and Mauritius are excluded	Diversification of the economies to facilitate the production of import substitution goods

			macroeconomic fundamentals		
Redda et al. (2017)	Descriptive and Comparative Analysis	Trade Openness	Members are open to international trade	Therefore the possibility of attaining an OCA	Further Integration of members in the financial market, stringent monetary and fiscal policies, and diversification of the economy
Nzimande & Ngalawa (2017)	GMM	Business Cycle Synchronization	The study finds out that intensifying trade, sound monetary and fiscal policy will ensure business cycle synchronization. The study also found out that financial integration and oil prices harmed	Business Cycle Synchronization can be achieved ex-post	Diversification of the economy and removal of all barriers to trade

			the business cycle.		
Redda & Muzindusti (2017)	Generalized Purchasing Power Parity (GPPP)	Inflation rates and Exchange rates	There is longrun convergence of in real exchange rate due to similarity in macroeconomic fundamentals	OCA is achievable	Macroeconomic Restrain, financial buffers, and intensifying trade by removing barriers

2.0 LITERATURE REVIEW

2.1 *Optimal Currency Area* (OCA)

The Optimal Currency Area (OCA) theory can be attributed to Mundell (1961) and McKinnon (1963). The theory postulates that countries with high labour mobility, a high degree of openness, substantial product diversification, sufficient flexible price and wage, effective monetary policy, similar inflation rates, and the zeal to abandon their currencies will benefit from forming a currency union. Mundell postulated that a common currency reduces transaction costs leading to trade creation. High factor mobility especially labour mobility among the countries was key in forming an OCA in a fixed exchange rate regime. McKinnon (1963) argued that the degree of openness as a relationship between tradable and non-tradable is crucial in forming an OCA. The more economies are opened to one another, the higher the tendency of forming an optimal area.

For a currency area to be optimal, Mundell (1961) argued that asymmetric shocks can be nullified with free labour mobility by liberalizing factor markets in the area. McKinnon (1963) argues an OCA as a region with a common currency and within which monetary policies, fiscal policies, and flexible exchange rates can address issues related to price stability, employment, and international payment which are conflicting. He suggested the need for the economies to be well integrated to reduce the exchange rate effect. He investigated the consequence of the size of currency unions and argued that small nations are more liable to trade and have lesser nominal rigidities. Therefore, suitable for the formation of a currency union. Kenen (1969) introduced product diversification as an important criterion for an OCA. He argued that diversity in products of the countries and the number of single product regions in a currency union is most relevant to form OCA as compared to labour mobility. Product diversity is a key factor for labour to move within a region. He further argues that when a region has a well-diversified export sector and homogenous labour with high mobility, there is a tendency for the region to form an OCA. Mundell (1961) concentrated on the cost involved in joining a currency union whereas McKinnon (1963) and Kenen (1969) focused on the conditions for enhancing the benefit for an Optimal Currency Area. The OCA focuses on the balance between the benefit of reduced trade cost and the cost of abandoning monetary sovereignty and business cycle synchronization of the member states. The theory concludes that there is a need to experience symmetric reactions to external shocks to lower the cost of regionally coordinated policies. Mundell (1973) argued that using a common currency may help an area to be optimal. This will reduce unsynchronized economic shocks leading to the creation of an optimal area. Mundell further posits that purchasing power parities should exhibit steadiness overtime. Thus, with the free movement of capital, there is the tendency of attaining an OCA.

Countries in fulfillment of the OCA criteria benefit from reduced transaction costs, price transparency, deepened and integrated money and capital markets, elimination of extreme nationalism, healthy competition to enhance trade through the facilitation of export diversification, and induce FDI as a result of sound macroeconomic indicators. The cost of forming a currency union per the OCA is; the inability of countries to respond to idiosyncratic shocks that worsen the economic situation of the area. The ability to

overcome external shocks was a factor to evaluate when introducing a new currency. To add up, the loss of monetary sovereignty by member countries and the mechanism of the exchange rate which is dependent on the effectiveness of monetary policies. The OCA does not account for the political influence in the formation of a currency union. Thus, there are other benefits to currency union than just trade.

Frankel and Rose (1997) argued that trade enhancement as a result of OCA will have two effects: either an increase in industrial specialization due to comparative advantage or increased business cycle correlation. The study posits business cycle synchronization is an important criterion in evaluating an OCA and it can be achieved ex-post. The study further posits that trade openness and correlation move hand in hand. Frankel (1999) based on the Endogeneity of OCA argued that income and openness can be stimulated with policies. Thus, a country below the OCA curve can move to the right of the line with trade integration which would increase the income level to achieve OCA. Calvo and Reinhart (2002) argued that if a country cannot use monetary policy adequately then the loss of monetary policy cost will not be significant. De Grawe and Mongelli (2005) argued that countries with separate labour market institutions would not form an OCA. The benefit of an Optimal Currency Area is realized from the microeconomic base by reducing trade cost hitherto currency and exchange rate risk whereas the cost of joining the union is realized at the macro-level (De Grawe and Mongelli, 2005).

Therefore, the optimal currency area criteria were set out to evaluate conditions that will enhance the benefit and reduce the cost of adopting a common currency. De Grauwe and Mongelli (2005) argued that monetary integration will not lead to only trade but also labour and financial market integration.

The OCA emanated from the argument of the fixed and floating exchange rate but recent arguments have been raised for the reconsideration of the theory. To begin with, the theory postulates that in an area of free labour and capital mobility across regions, the area is optimal for the creation of a currency union. The free movement of capital ruins the exchange rate as a useful tool in stabilizing external disequilibria but rather it is a target of destabilizing speculative capital movements and thus a source of large asymmetric shocks

(Mundell, 1973). To simply put, the exchange rate is less effective in addressing an external shock within the area using a fixed exchange rate regime. Secondly, Currency union turns to integrate the capital markets of member states serving as an insurance mechanism against asymmetric shocks. (Mundell, 1973). Thirdly, a country's monetary policy can be enhanced when attached to a low inflation anchor country (Talvas, 1993; 673-677). Fourthly, monetarism argues that activist monetary policies are the only source of instability, in the long run, governments cannot stabilize their economy through monetary policies (DeGrawe, 2006; 715). Fifthly, the OCA prediction of the Eurozone as not optimal even though members achieved the convergence criteria took a toll on the theory. Rogoff (2005) argues that the Eurozone is politically optimal but not economically. Also, the OCA criteria do not have a unified framework for estimating the formation of a currency union. There is no unanimity for the weight of each criterion and leads to inconclusive analysis (Talvas, 1993). Likewise, the OCA draws strong conclusions from several criteria to evaluate the feasibility of a currency union (Willet et al, 2007). Finally, the Endogeneity of OCA argues countries in an area can be an OCA ex-post when they form a currency union even though it was not ex-ante. Therefore, the need for reevaluation of the OCA for the above arguments. The floating exchange rate does little to help achieve monetary targets due to exchange rate volatility and currency depreciation. In light of this, currency union yields more benefits compared to the fixed exchange rate.

The OCA criteria are best used as a measure for countries who are already trading with one another and competing in international trade with infrastructures in place to facilitate trade. In this background, the business cycles will have a greater tendency to synchronize. Moreover, empirical studies using the OCA criteria showed the European Monetary Union was not an Optimal Currency Area, before currency union (Komárek, 2002; Vrnáková and Bartušková, 2013). Despite the EMU, not an OCA, the currency union stimulated trade flows among member states (UNCTAD database, 2018). A recent evaluation of the EMU countries based on OCA criteria showed countries were converging with the introduction of the Euro (Rose, 2008; Fürrutter, 2012; Crowley 2013). In this background, the OCA criteria will show varying results about countries at different stages of development irrespective of countries developed or developing.

Comparatively, countries at different stages of development will not have a synchronized business cycle due to their economic structures. If developing countries can adopt import substitution policies and induce cross-country FDI, inflation can easily be attenuated within the member states. There is an exigency for developing countries to integrate further by adopting a common currency for several reasons. These assertions show there are flaws in using the OCA criteria to evaluate the feasibility of currency union on trade. In this context, the stage of development of countries also provides an in-depth criterion for currency union formation.

2.2 *Theory on Exchange Rate Volatility*

Exchange rate volatility shows the level of risk involved with changes in the exchange rate. Exchange rate volatility is associated with either rise or fall in the level of exports depending on the assumptions of the variable. Conventionally, exchange rate volatility is argued to hurt exports since it increases the risk or shock involved in international trade. The prospective gains from international trade by firms are uncertain due to exchange rate volatility due to currency risk (Broll, 1994, 1995). Moreover, even with well-developed forward markets for some currencies, exchange rate volatility cannot be eliminated since it affects exporting firms in diverse channels of trade. An increase in exchange rate volatility increases the risk involved in trading, therefore, reduces the volume of trade with riskaverse firms. Contrarily, another theory on exchange rate volatility on exports shows even in the face of risk associated with volatility, it presents an opportunity for firms to maximize profits. In this background, exchange rate volatility can have a positive impact on the volume of trade. The option theory stipulates in alignment that firms with the option to export are better off when the exchange rate is volatile (De Grawe, 1992).

2.3 Types of Currency Areas

The choice of a currency union is dependent on the currency area and the prevailing circumstances of the countries. There are three main types of currency union namely; (i) Informal currency union (ii) Formal currency union and (iii) Formal with a Common Policy

An informal currency union is a type of currency union whereby a country unilateral adopt a foreign currency. The currency union establishes an international monetary system characterized by pegged exchange rates. The country pegging to an anchor currency benefits based on an aligned circumstance with the anchor currency purchasing power reasonably stable. The adopting country must be a major trading partner with the anchor country and also trading activities indexed to anchor currency. The trade relation should be strong to eliminate barriers of trade between the two countries so that the pegging country is less exposed to external shocks otherwise speculative attacks may lead to sharp devaluation and such expectation would generate high-interest rates and inflation that would reduce investment, therefore, dampen economic growth. Examples are Liberia and Zimbabwe.

A formal currency union is when a country adopts a foreign currency due to arrangements between the two countries. The currency union has a permanently fixed exchange rate with strict coordination of policies to unify monetary policies among member countries. Permanently fixing exchange rates necessitate monetary authorities to deliver their exclusive right to a common monetary authority by influencing the primary credit of central banks. Under this system, the domestic currencies of the member countries are allowed to circulate with some transaction cost. The benefit of joining such a currency union is small relative to the third type of currency union. An example is the pegging of Lesotho, Namibia, and Kingdom of Eswatini to the South African rand.

Formal with a *common policy* is when countries through international treaties adopt a common monetary policy and authority for the issue of the single currency with the establishment of an independent central bank that oversees the activities of the national banks. The central bank would oversee the national banks' operational and human resources without incurring the price of using all resources available. The countries turn to benefit tremendously from adopting the union such as the unification of interest rate, reduction of investment risk, and considerable savings as a result of a reduction in transaction cost which stimulates economic growth. An example is the WAEMU and CEMAC.

2.4 *Empirical Literature Review*

Cárcel et al. (2014) examined the feasibility of currency union in the East African Community (EAC) using monthly inflation rate data spanning from January 2004 to December 2013. The methodology deployed in the study was a fractional integration approach on inflation rate notably the Engle and Granger's (1987) and Gil-Alana (2003) methodology. The results showed that there is heterogeneity in the inflation rate. Therefore, it is not a possible OCA.

Harvey & Cushing (2015) undertook a study to examine whether the WAMZ is a common currency area using monthly data from February 1987 to April 2011 for five countries in the zone except for Liberia. The methodology used in the study was Structural VAR of real exchange rates, real growth, and price levels. The study concludes that each country experience different shocks and countries do not respond symmetrically to external shocks therefore not feasible to form a monetary union. Rametsi (2015) examined the possibility of SACU as an Optimal Currency Area (OCA). The data spanned from 1980 to 2015. The methodology used in the study was the Error Correction Model, central tendencies, and standard deviation to establish a relationship between real exchange rate, real GDP, the external value of the currency, and domestic value of the currency (inflation). The results showed that the error correction terms were statistically negative. The effect was that the cost and benefit of forming a currency union were based on how integrated the proposed members are to one another. The study further showed that there was a convergence of macroeconomic indicators therefore there is a possibility that the trade bloc is an Optimal Currency Area and can proceed with adopting a common policy.

Bakoup & Ndoye (2016) assert key players such as Cote D'Ivoire, Ghana, Nigeria, Guinea, and Senegal are most relevant for the West Africa Monetary Union to be established. These countries can take up the leadership role in the establishment of the union.

Mensah (2015) analyzed trade of West Africa Economic and Monetary union using data from 2002 to 2013. The Optimal Currency Area criteria were adopted to determine

whether the WAMZ form an Optimal Currency Area using data sourced for five WAMZ countries. The study concludes that based on trade WAMZ is not an Optimal Currency Area but with convergence in Real GDP growth, monetary policy rate, and inflation.

Ndiaye & Xu (2016) investigated the impact of direct foreign investment on WAEMU. The study developed a theoretical model of investment using panel data from 1990 to 2012. The study showed that FDI has a positive impact on economic growth in WAEMU. Thus, FDI has led to trade and investment in the zone attributed to trade liberation and creating an enabling environment. This a clear indication of the significance of FDI in a monetary union in West Africa.

Asongu et al. (2017) listed a broad survey of literature on the proposed African Monetary Union and delineated the advances on the status quo. The study adopted a cluster analysis, disaggregating panel, and shocks to the business cycle. The result showed that different methodologies provide conflicting findings.

Cham (2016) examined monetary integration and the possibility of FDI flows in the WAMZ using data from 1980 to 2013. The methodology used in the study was Fully Modified Ordinary Least Squares (FMOLS) and Ordinary Least Squares (OLS). The study concludes that monetary union has a positive impact on FDI inflow.
Muthui et al., (2016) analyzed the possibility of East Africa Community (EAC) monetary integration using data span from 1996 to 2014. The results showed that there is no cointegration between countries therefore the EAC does not form an OCA hence monetary union will come at greater costs.

Bah et al (2017) reflect on the strong regional trade institutions of West Africa to the weak trade institutions of the current era from the Empire hood to the current state of affairs. The study used an augmented gravity model of trade to account for import duty as a measure of trade liberation from 1998 to 2011 by using the dynamic panel technique for twelve countries in the region. The result shows that a reduction in the import duties on primary and manufactured products enhance the volume of intra trade except in

Agriculture. Thus, intra-regional trade in West Africa is less sensitive to changes in the agricultural import tariffs. The study further shows that current institutional trade barriers can be eliminated to allow the free flow of goods and services in West Africa. The study showed the role the regional trade institutions played to facilitate trade that has shaped the current trade pattern of the region.

Okom & Ugbe (2017) delineate the free movement of goods and trade liberation in West Africa showing the current blocks to the policy efficiency and efforts undertaken by ECOWAS to fully reap the benefit of the policy in attaining a common market. It emphasized that ECOWAS had implemented the policies and that the need for members to adhere to the standards through the willingness and zeal to converge to ensure a large trading bloc. The paper posits that Nigeria been the largest economy should embark on monetary and fiscal discipline to aid in the monetary union coming into fusion.
Redda et al., (2017) analyzed the feasibility of monetary union in the Southern Africa Development Community (SADC) and East Africa Community (EAC) using data span from 1986 to 2015. The results showed that countries in EAC have not attained the trade openness criterion therefore not liable to maximize the benefits of currency union hitherto not an OCA.

Chlond (2018) assessed hypothetically the possibility of using the rand as the common currency in the Southern Africa Customs Union using data spanning from 1960 to 2016. The study investigated the possible challenges and benefits of forming a monetary union in SACU and the asymmetry of shocks among members. The study adopted a structural VAR to measure the asymmetry of shocks among members. The results showed that forming a monetary union will come at a greater cost to Namibia, Lesotho, and Swaziland except for South Africa since the domestic component are high for all small CMA members. This indicates that economic shocks hit the area quite asymmetrically so that it is challenging for a common central bank to accommodate all economies using one monetary policy due to regional and global components estimated low. To conclude, the study showed that SACU adopting a common currency will not lead to trade.
Caporale et al. (2018) assessed the prospects of a monetary union in the East Africa Community using a monthly Real Exchange rate from 1990 to 2015. The results showed

that there exists a long-run integration between the members therefore a monetary union is feasible in the East Africa Community.

Gitimi (2018) examined the feasibility of adopting a common currency in the East Africa Community (EAC) using quarterly data span from 2000 to 2015. The results showed that there was a long-run convergence among members of EAC therefore Eats Africa Community is an optimal currency area.

Preis & Rappe (2019) assessed the optimality of the East Africa Community in forming an Optimal Currency Area (OCA) using a data span from 1995 to 2017. The results showed that there exists an asymmetry of shocks, structural differences, and attainable yet unsustainable nominal convergence criteria, therefore, miniature evidence for EAC forming an OCA.

Abban and Ofori-Abebrese (2019) estimated the prospect of ECOWAS Currency union on intra-regional trade using data spanning from 2000 to 2017. The methodology used was the gravity model of international trade which was estimated using the Poisson Pseudo Maximum Likelihood (PPML). The result showed that adopting a common currency will lead to trade. The study concludes that there is greater trade potential and the exigency to fast track attaining the macroeconomic convergence.

Abban (2020) delineated the macroeconomic convergence criteria of the Economic Community of West African States (ECOWAS). The study showed the level of convergence using averages, estimated the realistic targets, and emphasized the need for trade and institutional convergence. The study stipulated the main hindrance to trade in the ECOWAS and suggested some solutions to curb the ills. The study showed that in periods of shocks there is inflation dispersion. The study concludes that, on average, countries that use a common currency (WAEMU) have sound macroeconomic indicators than countries using sovereign currencies (WAMZ) in the ECOWAS.

Abban (2020) investigated the role of institutions and infrastructure on trade among members of the ECOWAS using a dataset from 2000 to 2017. The study used an

augmented gravity model of international trade which was estimated with the Poisson Pseudo Maximum Likelihood (PPML). The study used six institutional indicators from the World Development Indicators. The results showed that Political Stability and Rule of Law facilitated intra-regional trade whereas Corruption Control, Regulatory Quality, and Government Effectiveness harm trade. The study concludes on the need for a new institutional framework to curb the ills among members.

Abban (2020) used an augmented gravity model of international trade to estimate the prospect of a common currency on trade in the Southern Africa Customs Union (SACU) using a dataset spanning from 2000 to 2017. The estimation technique used was the Poisson Pseudo Maximum Likelihood (PPML). The results showed that adopting a common currency will lead to trade. The study concludes that trade and transport infrastructure and appropriate institutions are prerequisites in maximizing the gains from the formation of a currency union.

Abban (2020) estimated the prospect of the East Africa Community (EAC) currency union on trade using the gravity model of international trade. The study used a data spanning from 2000 to 2017 and the Poisson Pseudo Maximum Likelihood (PPML) estimation technique to estimate the model. The result showed that forming a currency union will lead to trade. The study concludes that adopting a common currency is superlative to the presence of a convertible currency. Therefore, adopting a common currency will lead to trade in East African Community (EAC).

Abban (2020) investigated the impact of institutions, infrastructure, East African Community (EAC) membership of Burundi and Rwanda on trade in East African Community (EAC) using data span of 18 years (2000-2017). The augmented gravity model of international trade was estimated using the Poisson Pseudo Maximum Likelihood (PPML). The result showed that institutions are not significantly contributing to trade while infrastructure affected trade. The study further showed that Burundi and Rwanda gained from EAC membership.

3.0 METHODOLOGY

3.1 *DEVELOPING A MODEL FOR CURRENCY UNION AS A PANACEA*

STEP 1

Existing studies have shown the potential benefits from currency union feasibility on trade. In this background, developing countries have to empirically test the impact of those variables on trade to know how significant the variables have been in stimulating trade and economic growth. In response, a new policy variable has to be developed if the variable does not have a positive significant impact on trade before the formation of a currency union. However, if the variable does have a significant impact, there is a relatively greater potential gain with the formation of a currency union. A granger causality test has to be further undertaken to know the existing relationship between trade and economic growth. If there exists a positive relationship, trade can be used as the dependent variable. However, if there exists a negative or insignificant relationship, there is a need to use economic growth as the dependent variable.

STEP 2

Test for the Optimal Currency Area (OCA) criteria and initiate policies in the attainment of the OCA.

STEP 3

Test for Optimal Cost Phase (OCP) criteria to deduce if the cost of using sovereign currency outweighs the costs of forming a currency union. The outcome will show the exigency for currency union feasibility.

STEP 4

Test the prospect of currency union on trade using the gravity model on international trade.

STEP 5

The developed policy framework for the policy on currency union should be implemented to test countries wit in compliance with macroeconomic restrain. The convergence can be used tested after the attainment of sound macroeconomic stability. Also, the need to test the political and economic environment on trade or economic growth to initiate policies that can adversely affect the free movement of people and

ensure safe and sound security. This is to curb any potential threat and develop strong political ties among member-states.

4.0 EXPECTATION OF RESULTS

4.1 *Expected Results*

STEP 1

All the variables are expected to have a positive impact on trade and economic growth

STEP 2

Degree 1

The OCA criteria such as high labour mobility and a high degree of openness are ***policy stimulating*** in the relatively short-run. The two criteria are attainable for developing countries. However, the criterion for high labour mobility will not be fully-fledged due to poor economic diversification.

Degree 2

The effective monetary policy requires intense coordination of policies to unearth the large informal sector. It requires macroeconomic restrain. Also, Price and Wage will equalize over time and be much flexible with an effective monetary policy. In light of this, measuring currency union feasibility based on macroeconomic convergence using inflation ex-ante fails since exchange rate compounds to inflationary pressures hitherto stringent measures to ensure discipline against inflation in a currency union. The two criteria will require time to be achieved therefore not feasible to test currency union feasibility for a developing country.

Degree 3

Substantial Product diversification will not easily be attained by developing countries in the same geographical jurisdiction because of the greater dependence on primary exports and similar production structures. As a result, intra-trade is relatively low therefore difficult for the business cycle to synchronize. This requires a laid out diversification road map of member-states. The criterion will not be feasible to test currency union for developing countries, however, it will spill out the targets to be achieved to form an OCA.

4.2 *Background to Optimal Cost Phase* (OCP)

Developed countries with greater contribution to world trade are liable to use sovereign currencies compared to developing countries. Due to the other incentives of a currency union, advanced countries also enjoy the membership of the union but are exposed to a greater risk of shocks. The initial non-existing mechanism to check the compliance and borrowing of members in the initial stages of the implemented policy of currency union yielded a great negative externality on the economies of the world. The main attributing factor for the crises in the European Monetary Union was the large public sectors heavily financed by external debts and the attractiveness to borrow from the international market. Moreover, empirical studies using the OCA criteria showed the European Monetary Union was not an Optimal Currency Area, before currency union (Komárek, 2002; Vrnáková and Bartušková, 2013). Despite the EMU, not an
OCA, the currency union stimulated trade flows among member states (UNCTAD database, 2018). A recent evaluation of the EMU countries based on OCA criteria showed countries were converging with the introduction of the Euro (Rose, 2008; Fürrutter, 2012; Crowley 2013). These assertions show there are flaws in using the OCA criteria to evaluate the feasibility of currency union on trade. In this context, the stage of development of countries also provides an in-depth criterion for currency union formation.

4.2.1 *Introduction of the Intuition* 'OPTIMAL COST PHASE (OCP)'

Intuitively, the condition upon which a country will opt to join a currency union depends on the cost of using the sovereign currency (based on historical data and the prospective events in country-specific) as compared to the cost (shocks) associated with joining a currency union. In this background, a developing country will join a currency union, only when the cost of using its sovereign currency would be higher as compared to the cost of joining a currency union. Thus, if the state of the economic and political environment keeps worsening per historical events and has the tendency to pose danger in the future, there is the need to integrate further with other countries to enhance economic growth. Comparatively, the OCA criteria compare the cost and benefits of joining a currency union strictly showing the set-out conditions are prerequisites to stimulate trade.

However, the set out nominal convergence has relegated the OCA criteria as a measure for the feasibility of currency union. Additionally, there are several other conditions on trade flows stimulation such as policy-oriented trade flows when potential is not fully tapped which will not be captured by the OCA ex-ante. Currency union membership can help unleash greater trade potential. Also, developing countries are highly vulnerable to shocks due to the use of sovereign currencies and poor diversification of the economies hitherto high dependence on the western world, so using shocks and similarity of the economic structure as a yardstick for ex-ante currency union would not be suitable. Shocks can be nullified with increased trade flows and the provision of credit facilities by adopting a *currency union with a common policy*. Additionally, empirical studies have shown that developing countries easily navigate through shocks compared to developed countries in a currency union.

More so, forming a *currency union with common policy* is a means of nullifying shocks across member-states hence reducing the high dependence on foreign partners and shifting the reliance to domestic producers. Using a sovereign currency as a developing country impedes development since it culminates as a greater barrier to trade and increase the cost involved in international trade. In this context, countries with greater trade potential and the large informal sector will culminate in the gains from trade when a currency union is formed. Currency union is a major step towards the economic transformation of struggling economies. The intuition seeks to measure the cost of using existing currency, then evaluate if there is a need for the currency to be substituted with another. If the cost of using the existing currency is high compared to the cost of joining a currency union, then the countries have the incentive to join a union since the benefits of a currency union will improve their economic stance. The evaluation of the existing currency cost should comprise institutional quality (economic and political), regional growth, environmental factors depending on the contribution to GDP, human resource quality, size of the informal sector, trade barriers, and trade intensity based on potential whereas the cost of the currency union can be computed using some OCA criteria. If OCP is greater than OCA, then adopting a common currency will improve economic prospects.

Recent Endogeneity growth model estimates depict human quality easily stimulates economic growth. The OCA criteria for measuring real convergence such as business cycle synchronization, product diversification, and similarity in the industrial structure are not suitable for the feasibility of developing countries' currency union. These criteria can be attained with a well-laid criteria road map for diversifying the economies and removal of trade barriers. Also, the Endogeneity of the OCA postulates the attainment of these criteria ex-post. Countries with well-developed infrastructure and human capacity will only attain these criteria ex-ante.

The striking advantage of developing countries in forming a currency union has to do with relatively lesser nominal rigidities, relatively small public sectors compared to EMU, unattractiveness to heavily borrow from the international market, greater trade potential, and elimination of trade and non-trade barriers among others. However, reduction in currency risk, exchange rate risk and inflation risk will lower the country's cost of borrowing from the international market hence enhanced gains from trade. Furthermore, developing countries in a currency union are most likely to navigate through shocks easily compared to developed countries. Also, savings will be very large when transaction cost is reduced compared to EMU countries due to greater trade barriers in developing countries hitherto greater trade potential. Theoretically, capital would flow from region of abundance to region where capital is most needed. Thus, it will induce Foreign Direct Investment (FDI) from member-states by when policies across the region assure business confidence. Additionally, the money and capital market deepen with intense economic policy integration. Also, investor confidence can easily be enhanced by ensuring exchange rate stability across the region since risks associated with doing business is reduced.

Evaluating the EMU based on the Optimal Cost Phase (OCP), the cost of countries in the European Monetary Union not integrating further to form a currency union was the tendency of trade disputes among members, the adverse effect of sovereign currencies on international trade, and extreme nationalism which could have cost the long-term growth of the continent. Moreover, the prevention of competitive devaluation of currencies and unwholesome speculations that would adversely affect trade. In conclusion, the intuition stipulates that the cost analysis of the existing conditions pertained to using sovereign

currency compared to the cost of joining a currency union is superlative to using the cost and benefit analysis of the OCA. Notwithstanding, some OCA criteria are suitable for currency union evaluation. The OCP could serve as the link between ex-ante OCA and Endogeneity of OCA.

4.2.2 **Steps for Optimal Cost Phase (OCP)**

1. To set out the realistic nominal convergence criteria, there is the need to use the average of the yearly average of inflation, gross reserves, budget deficit, public debts per GDP, Central Bank financing of government expenditure among others.
2. Initiate policy on the free movement of people, goods, and capital
3. The roadmap for diversifying the economies to form the currency union
4. The rollout of the institutional policy framework to ensure transparency in the system.
5. To investigate the effect of political variables, security, tourism, migration, human resource quality, Foreign Direct Investment (FDI), among others on trade.
6. Estimation of the trade potential for member-states
7. To investigate the role of the primary sector on trade for the selected countries to know its intensity on trade compared to the manufacturing and service sector and the geographical fundamentals
8. The size of the informal sector and the size of foreign investors per total businesses in the countries and
9. The potential gain from the integrated financial market and suggested diverse portfolios to be listed

STEP 4

Currency Union should have a positive effect on trade. Additionally, the size of domestic firms to foreign firms is a prerequisite to evaluate the capacity of the indigenous private investors in raising trade flows.

STEP 5

There should be some level of convergence and greater discipline against inflation. Also, the political and business environment should have a positive effect on trade else the need for intense policy formulation and stringent implementation.

5.0 Conclusion

With the implementation of these suggested institutions, developing countries notably Africa will be well-positioned to take off the currency union. The policy on a common currency is deemed to fail if this institutional framework is not well noted due to the deliberate effort to induce the gains from currency union membership. In this background, a currency *union with a common policy* should be the benchmark for curing the ills.

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Human Resources Management in Sub-Saharan African Banking Industry

A Conceptual and Contextual Analysis of HRM Strategies and Macro Factors in Africa's largest bank

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Abstract
Abundant information in the literature suggests that the constant and effective implementation of formulated human resource management (HRM) policies and strategies affects how employees' appreciate the alignment of their personal goals and fit with the organization, and the extent to which the organization regard or respects the agreed terms of employment whether expressly stated or implied. (Mayer et al., 1995; Ross and La Croix, 1996; Dietz and Den Hartog, 2006; Searle et al., 2011b; Whitener, 2001). This objective of this paper is to appraise the training/ development strategies, recruitment strategies, performance appraisal and rewards strategies of Access Bank Plc. The game plan is to access the impact of these strategies on productivity (among other objectives), and to see if there are alternative approach to any of these. The role ofinternal and external factors (globalization, political-economic and organizational structure dimension) on the above mentioned strategies will also be appraised. Conclusions and recommendations on alternative approaches, solutions or strategies to follow (if any) will be thoroughly discussed and a clearer image of the "cause-and-effect" relationship of these strategies (approaches) and increased productivity will be drawn.

Introduction

Access Bank plc is the largest bank in Nigeria and Africa by market share. The bank commenced business in 1990 and has been a major player in the oil and gas, energy, fast moving consumer goods and multinationals sectors, in financial and educational institutions and in real estates. With its corporate head office in Lagos, the bank has nine subsidiaries including the United Kingdom, DR Congo, Gambia, Ghana, Rwanda, Sierra Leone, Zambia, and Burundi.

Access Bank, over the years, has grown from a position of 65 out of 89 banks in the country–to the largest bank in Nigeria. The take-over of the bank by a new management in 2002 was highly instrumental to the achievementof this feat. The management executed several strategies including both organicand inorganic growth strategies, employee training development, enhanced employee selection and recruitment, active employee participation and a reward system that only rewarded high performing individuals or teams. In addition, a culture of excellence was inculcated in the minds of the employee, through ensuring that employees buy-in to the mission, vision, and strategic objectives of the bank.

In the execution of its growth strategy, the bank adopted a low centralization structure with an element of organic structure, where the corporate head office is responsible for policy formulation and management of strategic decision and the branches are expectedto implement the decisions from the corporate head office. Branches are allowed the latitude to take decisions on their daily operations, as long as it is within the comfort of the established policies or operating procedures in the bank. Also, branches are empowered to approve credits within their limits as captured in the banks credit policy guide. Credit approvals outside the branch's limit are sent to the applicable officers for approval in line with the banks credit policy guide.

Literature Review

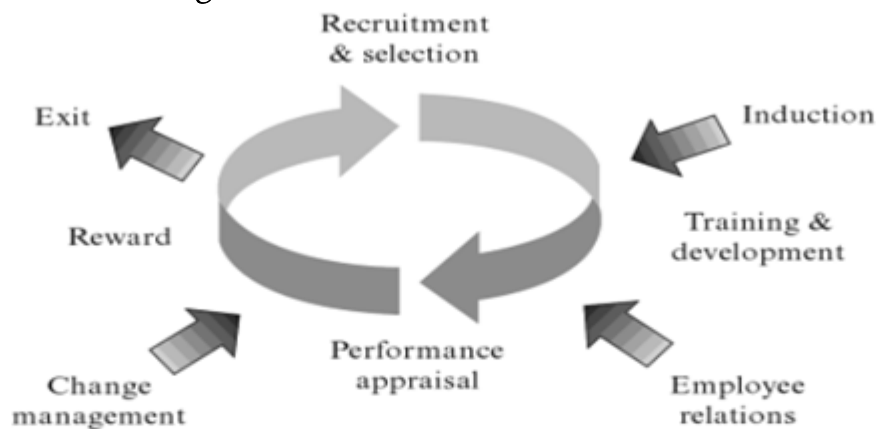
A review of the literature point to many well-thought-out publications and reviews on recruitment (Breaugh and Starke, 2000; Taylor and Collins, 2000; Highhouse and Hoffman, 2001; Rynes and Cable, 2003; Chapman and Webster, 2003; Chapman et al.,

2005; Saks, 2005). Recent research also suggests that today's organizations still struggle with staffing challenges due to increased knowledge work, labor shortages, competition on the part of applicants, and workforce diversity (Ployhart, 2006).

Staffing is understood as a process of selecting and training individuals for specific job functions and charging them with associated responsibilities. Itinvolves attracting, acquiring (initial intake of applicants into the organization), deploying (placement of new hires on the actual job they will hold) and retaining (managing the inevitable flow of employees out of an organization) a workforce of sufficient quantity andquality to create positive impacts on the organization'ss effectiveness. Staffing quality (matching a person"s qualifications relative to the requirements of the job or organization), quantity (having enough head count to conduct business), person/job match and person/organization match are very strategic in the war for talent and sustained competitive advantage. It is important to recognize that it is the combination of sufficient quantity and quality of labor that creates an effective staffing system.

If staff requirements match availabilities, it means the organization is fully staffed (just in time tight staffing strategy). If requirements exceed availabilities, the organization is understaffed; and if availabilities exceed requirements, the organization will be overstaffed (just in case full staffing or intentional over-staffing strategy). While most organizations seek to be reasonably fully staffed, some might choose to be over or understaffed. Overstaffing may occur when there are decline in demand for the organization's products or services. Organizations may also overstaff to keep talent, recognizing that the staffing engine cannot be easily turned on or off. Understaffing may occur when the organization is confronted with chronic labor shortages, such as is the case for nurses in health care facilities, surgeons, and other professional services. Also, prediction of an economic downturn may lead the organization to understaff to avoid future layoffs. Finally, the organization may decide to understaff and adjust staffing level demand spikes by increasing employee overtime or using flexible staffing arrangement such as temporary employees. The software development organization might choose to overstaff in order to retain key employees and to be poised to meet the hopeful surges in demand as its new products are released. Being understaffed means high pressure on

employees, and the organization will have to gear up its staffing efforts, starting with accelerated recruitment and carrying on through the rest of the staffing system. It may also require development of retention programs that will slow the outflow of people, as well as the use of self- managed teams with a high degree of co-operation and knowledge of one another‟s work. Overstaffing projections signal the need to slow down or even halt recruitment, as well as to take steps that will actually reduce head count, such as through reduced workweeks, early retirement plans, or layoffs. This is necessary because overstaffing lowers productivity, increases costs, makes the company‟s products less competitive in the market due to increased prices of goods, and cripples the organization as well as others subsidizing it.



Adapted from Trust and Human Resource Management, 2011: The HRM cycle

Access Bank and the 3R's (Recruitment, Retention and Reward)

Recruitment Philosophy and Practice at Access Bank Plc

The philosophy is to do whatever it takes to make sure every single core staff hire is an "A" talent that fits culturally and share the vision, mission and values of the organization. Access Bank has a rigorous which accesses candidates for qualities like general cognitive ability through standardized tests, learning abilities, initiative, flexibility, teamwork, personal and behavioral attitudes, leadership, role-related knowledge, problem-solving skills, evidence of sound knowledge of the financial environment and components of what makes a candidate to be an ideal "Access Person" (qualities that would enable them to thrive in such an environment).

Access Bank dedicates huge financial resources to its recruitment process which starts with identification of manning gap, analysis and gathering requirements for each job opening, defining criteria for assessing recruits, incentives or rewards, identify potential sources or recruitment channels, select the right person, induct the new starter, measure, review and evaluate. Every decision point requires a painstaking process that involves a panel of people who assess the candidates at each milestone. The final hiringdecision is made by the CEO. This rigorous process weeds out anyone who is merely anaverage or a low skilled candidate. Premium is placed on passion for customers, leadership and innovative instincts.

Access Bank is interested in highly motivated hires who can take ownership and hit the. The hiring process involves a first conversation with a recruiter, a phone interview and an onsite interview at its head-office or selected regional office. First, a small group of staffers interviews the candidates. Then a second committee of senior managers reviews all materials about the applicants, including those they submitted on their own behalf as well as interviewer feedback. Then the Head of HR, interviews the candidate toassess cultural fit and consistency with the Access Bank brand values. Access bank conducts series of behavioral/family background interviews (at least three) before settling on a job candidate and making an offer. On average, the bank takes about 35 days to hire which last 5 stages ending with the CEO as the final approver.

Some of the standard recruiting tools Access Bank uses include employee referral, college recruitment (including outstanding internship program that has a very high conversion rate to permanent hires), Head hunters, professional networking (networking groups like Linkedin, facebook and job boards. At Access, recruiting is responsible for filling both executive leadership, middle-level and lower level positions. To ensure that the company has the capability to recruit talent at the capacity needed, the recruiting model has been broken up into very distinct roles, each requiring specialized expertise. These activities, carried out in a highly choreographed manner by teams tied to Human resources group and the recruiting business unit include: recruiting research specialists; candidate sourcers; Recruiting generalists; screening committee; specialized recruiters for colleges/

internships and recruiting program managers. Such specialization enables the function to be managed in a way like a supply chain.

Downsides in the Access Bank approach

Access Bank"s primary strength in recruiting comes from the fact that they "attract the brightest and the best" and that they have also succeeded in retaining the brightest and the best within the workforce. However, some of the downsides affecting recruitment in Access Bank which I will like to urgently address are outlined below:

Hiring philosophy and process: Access Bank is known in the industry for hiring talent that they don't have a need for at the moment, hiring for "talent's sake not for role-sake." The competition for talents is a zero-sum game in the Nigerian Banking industry as the fear of losing key talents to competition could affect a banks competitive advantage especially in the areas of deposit mobilization, product development and technology. This is synonymous with **just in case full staffing approach** which has the tendency of lowering productivity and increasing costs, leading to reduced competition inthe industry.

Recommendations

A deliberate understaffing strategy with the use of self-managed teams will be more beneficial for Access Bank as that will make the bank to maximize the returns on investments made in recruiting only "A grade" employees and promote teamwork and continuity even if the team loses a staff. Just in time tight staffing is may not be desirable because it will make the bank less capable of responding to the sudden loss or absence of key talent (s). Also, deliberate overstaffing has similar but worse demerits as just in case full staffing strategy discussed previously. However, while there could be some cost saving in recruiting grade-B (average) people, it would push the bank into mediocrity in the long run.

Also, I recommend a more flexible and less mechanical and less bureaucratic hiring process by relying more on behavioral and scenario-based interviews in order not to miss outon very Intelligent and creative talents that may not want to be subjected to the rigors of the current process.

In the filling of the vacancy for support staff or administrative assistants, I recommend thatthe bank go for low skilled employees and /or average performers. The recruitment will be outsourced in other to cut down on the cost of recruitment and adequate training and right exposures needed will be provided. Just like the Finnish Caledonian paper case, selectionfor this group of people will be based on flexibility, trainability, willingness and ability to work as part of a team, orderliness, low dominance and endurance. Career paths will be provided and performers will be rewarded.

Globalization, Political – Economy and Organizational Structure onRecruitment/Staffing.

Globalization is affected either positively or negatively by the prevailing political economic systems and organizational strategy or structure (Ulrich and Brockbank 2005.pp 31-32). Regulatory or legal requirements, labor laws, culture and social environment also affects recruitment or staffing for a global company.

In the case of Access Bank, its presence in 9 different countries has compelled the bank to decentralize its recruitment policies and practices (see appendix 3) and position it in tandem with local realities and local labor laws. For instance, in Central African countrieswhere the bank has three subsidiaries, its focus is solely on recruiting average performers (grade „B") and the bank rely on intensive classroom and on-the-job rotational training in Nigeria to bring its workforce up to speed. This is because of the relative scarcity of grade „A" employees in the region. Also the bank occasionally recruit hires from other African countries to fill identified vacancies in the Central Africa. Where key talents are identified for these regions even when there are no vacancy, Access Bank keeps such talents in the pipeline.

Appraisals and Reward at Access Bank

Performance appraisal is the method in which an employee"s job performance is evaluated and reviewed. Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development (Muchinsky 2012) .This compares employee work behavior with the organizations pre-set standards or metrics to provide feedback on job performance. Performance appraisals are a form of motivation through either positive or negative

reinforcement, depending on outcome. The goal is to align and manage allorganizational resources to achieve highest possible performance by motivating staff through encouragement, setting targets and improving on past errors or inadequacies, identifying training/developmental needs by asking few questions, getting feedback from employees in the process. The overall aim of performance management is to establish a culture of excellent performance in which individuals and teams take responsibility for the continuous improvement of business processes and activities and for their own skills and contributions within a framework provided by effective leadership (Armstrong, 2006).

Performance appraisals can take the form of 360-degree (evaluation by superiors, peers, self and subordinates), 180-degree (evaluation by superiors and peers) and 90- degree (evaluation by superiors only). Armstrong (2006) also argued that most organizations follow **SMART** mnemonic to summarize the characteristics of good performance appraisal objectives.

S	SPECIFIC	Clear, Understandable and Challenging
M	**MEASURABLE**	Quality, Quantity, Money and Time.
A	**ACHIEVABLE**	Challenging but in the reach of an experienced and committed person
R	**RELEVANT**	Related to the objectives of the organization so that the goal of the employees is associated to corporate goals
T	**TIME FRAMED**	Objective is to be completed within a timescale

Performance Review at Access Bank

Performance reviews at Access Bank happens twice a year while promotions happen at the end of the year, following the outcome of the 90-degree performance appraisal reviews and most employees need to be in their positions for at least a year to be promoted. The 90-degree performance appraisals though laden with subjective opinions, nothwithstanding final appraisal grading and promotion decision is approved by a bankwide collegiate committee of the bank consisting of all senior managers up to the CEO. The 360-degree is most preferable as it provides a bird eye view of the suitabilityor otherwise of candidates for promotion and it also a reflection of general acceptance rather than a sectional acceptance that the 90 or 180-degree posits. However, a combination approach also looks good, where 360-degree will be used for top management staff, 180-degree for middle level staff and 90-degree for low level staff. This depicts the leadership, responsibilities and professional roles that is expected at each level of management.

At Access Bank, despite the 90-degree method, supervisors will have to justify their appraisee‟s appraisal grade with concrete visible examples at the collegiate appraisal committee meeting before decisions are taken. This is supported by literature which states that given the personal nature of an appraisal about an individual‟s ability and contribution, it has the potential to impact on self-esteem, psyche and performance (Crossman and Lee-Kelley, 2004). Indeed, any impact on performance may well be negative as performance reviews which are perceived as unfair tend to result in lower morale and performance (Cropanzano et al., 2002).

To deal with the above-mentioned problem, Access Bank developed a "professional development plan" for positions at each level detailing what was required in various categories (customer focus, error-free processing, liability generation, loan monitoring, innovation and creativity, decision making, delivering results, collaboration and team work, communication and "Access Person"). As HRM systems have been said to represent the „relationship, interaction and message between employee and employer‟ (Tzafrir, 2005:1601), the performance appraisal process is not only one of one of its most visible manifestations, but also a focal point for the articulation of the relationship

(Deutsch-Salamon and Robinson, 2008). Risk and vulnerability, two quintessential features of trust, often come to the fore through this process. It is an area where many organizations report dissatisfaction (Cook and Crossman, 2004).

HRM system characterized by high performance work practices were found to have a significant and direct effect on employee commitment (Taylor et al., 2008; Whitener, 2001).

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. Reward management consists of analyzing and controlling employee remuneration, compensation and all of the other benefits for the employees. Reward management aims to create and efficiently operate a reward structure for an organization. Reward structure usually consists of pay policy and practices, salary and payroll administration, total reward, minimum wage, executive pay and team reward (Armstrong and Murlis, 2004).Reward management deals with processes, policies and strategies which are required to guarantee that the contributionof employees to the business is recognized by all means. Objective of reward management is to reward employees fairly, equitably and consistently in correlation to the value of these individuals to the organization. Reward system exists in order to motivate employees to work towards achieving strategic goals which are set by entities.

Reward management is not only concerned with pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, training, development and increased job responsibility. To have an efficient Reward System, it is mandatory that employees know exactly what their task is, have the skills to do it, have the necessary motivation and work in an environment allowing the transformation of intended actions into an actual behavior. From the company point of view instead, an effective performance appraisal has to be present, in order to let motivation be a major contributor to the rewarded performance (Mitchell, 1982).

Rewards serve many purposes in organizations. They serve to build a better employment deal, hold on to good employees and to reduce employee turnover (Watson, 2003).The goal is to increase people's willingness to work, to enhance their productivity (Gkorezis and Panagiotis, 2008). Rewards can be both extrinsic (concrete rewards that employee receive) and intrinsic (tend to give personal satisfaction to individual). Extrinsic rewards include bonuses, salary raise, gifts, promotion and other kinds of tangible rewards. Intrinsic rewards include information/feedback, recognitionand trust/empowerment. Intrinsic rewards makes the employee feel better in the organization, while extrinsic rewards focus on the performance and activities of e m p l o y e e s in order to attain a certain outcome. The principal difficulty is to find a balance between employees' performance (extrinsic) and happiness (intrinsic) (Reif, 1975).
The reward also needs to be according to the employee"s personality. When rewarding, the manager decides if he wants to reward an Individual, a Team or a whole Organization. One will choose the reward scope in harmony with the work that has been achieved.

I. Individual
a. Base pay, incentives, benefits
b. Rewards attendance, performance, competence
II. Team: team bonus, rewards group cooperation
III. Organization: profit-sharing, shares, gain-sharing

Rewards at Access Bank Plc

Access Bank fast growth has been traceable to its effective and attractive motivational policy using a combination of intrinsic and extrinsic rewards. Seeking to be the employer of choice in Africa, Access Banks success is partly attributed to its highly motivated workforce who are poised ***to go beyond the ordinary, to deliver the perceivedimpossible***.
Motivation can be defined as the processes that account for an individual"s intensity, direction and persistence of effort toward attaining a goal.

Access Bank encourages individual performance and reward over group performance, while task might be for a group, however reward will be based on individual

contribution to the group rather than the overall group outcome. I prefer group reward for group task over individual contribution to the group as this will promote cohesion, teamwork, learning and development, reduce strife and ultimately increase productivity.

On the other hand, individual reward gives the employee the incentive to move at its own pace and determine his or her reward and thereby take responsibility and ownership for every task or actions, thereby sustaining increased productivity.

In terms of salary and incentive payment, Access bank focuses more on incentive payments. Incentive payments is about 10 times more than the salary, so not earning such huge bonus is a huge loss. Incentive payments help employees to move at a fasterpace to achieve their set targets, it also has the limitation of making employees to have ashort term focus, hence defeating long term gain that would have accrued to the organization. Salary payment on the other hand stifles motivation and can adversely affect productivity.

Explaining Motivational practices at Access Bank using McClelland's Learned Needs Theory of Motivation.

The assumption of McClelland's theory of needs is that people with different needs are motivated differently. The implication for managers is finding what motivates certain individual groups and assigning them with different rewards. Those with high needs for achievement should be given challenging projects with reachable goals. They should be provided with frequent feedback. Those who seek a need for affiliation should be placed in groups that can work as a team. Those who have a need for power should be givenan opportunity to manage others. McClelland's theory allows for placing individuals to match a person‟s emotional needs to certain job design. The main theme of McClelland's theory is that these needs are learned through coping with one‟s environment. Managers can learn to see an employee‟s strength by placing individuals in certain training programs where they will be motivated to find their niche in certain skills needed in the organization. Since needs are learned, behavior which is rewarded tends to recur at a higher frequency.

McClelland's proposed a theory of motivation that is closely associated with learning concepts and believes that many needs are acquired from culture. There are three main points to McClelland's theory: the need for achievement, the need for affiliation, and the need for power.

1. Need for Achievement - Having a need for achievement encourages an individual to set challenging goals, to work hard to achieve the goals, and to use the skills and abilities needed to achieve them. A descriptive set of factors that reflect a high need for achievement include the fact that the person

- likes to take responsibility for solving problems.
- tends to set moderate achievement goals and is inclined to take calculated risks.
- desires feedback on performance.

Access Bank was able to stir and enhance this need in its recruit right from the recruitment process by ensuring that only an "A" player who fits with the core values of the organization is employed. Employees who can go beyond the ordinary to produce outstanding success are rewarded. The introduction of Access bank stock option for outstanding performers, quality training for high performing staff at top business schools such as Harvard, Wharton, INSEAD and the Access bank CEO awards which rewards outstanding and innovative performance

2. Need for Affiliation (desire to seek approval, conform and avoid conflict by trying to project a favorable self-image) - The need for affiliation reflects a desire to interact socially with people. A person with a high need for affiliation is concerned about the quality of important personal relationships, and thus, social relationships takeprecedence over task accomplishment. What others perceive one to be like is a huge factor in one‟s needs. Image is everything. Access Bank actively enhanced this drive through free use of swimming pools and work-out facilities at its head office, corporate membership of various social clubs, gyms and concerts office.

Other company initiatives to encourage community building and cross fertilization include company-sponsored field trips, team bonding sessions, a day with top management, family picnics and Friday night social gathering.

3. Need for power [desire to control one‟s environment; personalized (to advance self-interest) versus socialized power (as a means to help others)] - A person with a high need for power concentrates on obtaining and exercising power and authority. He or sheis concerned with influencing others and winning arguments. Power has two possible orientations according to McClelland. It can be negative in that the person exercising it emphasizes dominance and submission. Power can also be positive in that it reflects persuasive and inspirational behavior. Significant aspects of the culture of Access Bank is designed so as to create a culture on information sharing and collaboration.

The fascinating aspect of Access Bank is its intrinsic rewards and how it allows employees to operate with freedom and respect, allowing them control of their own projects and programmes empowering them to take full ownership and responsibility.

Globalization, Political Economy and Organizational Structure on Performance Appraisal and Rewards

Access banks motivational and rewards system also takes care of all the five needs that are listed in Abraham Maslow‟s hierarchy of needs. Through competitive pay, free transportation, subsidized food and monetary rewards, Access bank takes care of the physical, security and social needs. Through measures like granting loans to employeesto finance their dream car, dream home and dream vacation, the bank strive to fulfil its employees higher level self-actualization and self-esteem needs.

In terms of performance appraisal and rewards at Access bank, there are elements of social democratic capitalism where performance appraisal and reward is solely tied to productivity especially at the head office and regional headquarters. Regrettably in some of the African subsidiaries and local branches there exists elements of crony capitalism where performance appraisal and reward is determined by who is closer to the big boss or who does the domestic errands by the big boss.

Again, in most branches managers have full autonomy on performance appraisal and compensation and they are more amenable to bending the rules often.

Training and Development

The financial and cost impact of lack of development plan and training for employees have been well documented in the literature (Ulrich and Brockbank 2005; Lipman 2013). Quite important, but training and development is often the most neglected aspect of management or better still handled as a bureaucratic exercise or an afterthought and this makes companies to pay huge price for such avoidable slips. Sometimes lack of training could be a deliberate cost cutting approach or could be attributable to a sunk cost in cases where an employee leaves the organization after the training.

Access Bank Training and Development strategy

Just like the BMW South Carolina case, Access Bank prefers to develop and train average people at very high level for its support functions and recruit and train A" grade people for its core activities. In cases where it is absolutely necessary, Access bank hires elite employee for its core business especially where the competencies are not readily available in-house. Therefore Access bank practice a blend of the two approaches depending on need and situation.

In terms of conformity vs creativity and innovation, Access Bank employs a blend of the two depending on job function. Being a bank, some job require that staff follow strictly standard operating procedures, however Access Bank encourages its staff to be innovative especially where it is expected to enhance processes and increase productivity. However in roles such as product development, service delivery creativity isgreatly encouraged as it forms an integral part of the KPI"s of employees in such roles. Innovation to processes, procedures and activities that would reduce error rate, increase turnaround time, reduce lead times and reduce wastages. Recently the bank launched a process improvement program which was code-named **operation eliminate stupidrules-** These are policies and procedures that delay the delivery of exclellent service andwith little or no bearing on the banks bottom-line. The game plan is to review all existing policies and processes, eliminate the outdated ones and trim down the current processes that are impeding service deli very with little or no positive impact on the banks bottom-line.

Access Bank has a performance improvement plan for improving poor performance. Following the conclusion of the annual appraisal exercise every staff with a „C" grade is assigned to a mentor who will mentor them for a minimum of 6 months and review performance. If there is no improvement such staff is advised to resign, after which a replacement is sought externally via the recruitment system.

Access Bank has developed its own training program for its staff at different level. Top performers are sent to leading business schools such as Harvard and INSEAD for modular training, medium and average performers are trained in-house. The top performers" form a pool of elite employees profiled and are generally referred bankwide to as **Key talents.** As part of training and development, the bank also encourage job rotations, projects, programs, group task, work teams, work streams and quality circles.

Recommendations and Conclusions

From the foregoing i would argue for developing average people than hiring elite employee because:

- Elite employees have an appreciation of self-worth, hence they are always mobile, hence recruitment will always be on-going and productivity will be low.
- This will increase both recruitment and training cost hence affecting bottom-line
- Average people tend to appreciate the volume investment into their development; hence they might be more loyal than elite employees and stay in the organization.
- With proper training and mentoring average people will most likely perform as better as the elite employees with less pay.

However, for specialized task that require high level initiative and creativity, it is better to opt for the elite employee, however monotonous or repetitive task are better performed by average people.

Also, creativity and innovation rather than conformity are better applied in jobs that require innovation, IQ and initiative such as in high tech like Microsoft, Google, 3M e.t.c.

Poor performers are better replaced when there are no obvious signs of improvement or willingness to improve or when they are irredeemably poorly motivated or if there is a

misalignment with organizational goals. In this case there is no need for further improvement plan as it is better to let go than to regret.

In situation where industry / national training program are available and will lead to significant cost reduction without compromising quality, then it is ideal to opt for industry training program. For instance in the banking industry where all banks share the same credit or card schemes (VISA, MASTERCARD), the same switches, the same processors, industry training program is most ideal as there is no need for a single bank to invest in all these trainings. Since the platform is a shared service platforms across banks, training also has to be provided as a shared service.

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Conflict of Interests

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