



ECOWAS: Opportunities and Challenges

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Founded in 1975, ECOWAS (Economic Community of West African States) consists of 15 member States in West Africa with different spoken languages, different currencies and a total population of 220 million people. The mission of ECOWAS is to promote economic integration across the region. This article will give a summary of the most important information about ECOWAS.

Opportunities

Structure, Language & Currency

ECOWAS comprises three branches of power and one institution: the Executive branch, the Legislature, the Judiciary and the ECOWAS Bank for Investment and Development. Even though there is until now no common currency in ECOWAS, the 8 French-speaking states (except Guinea) and additionally Guinea Bissau use the same currency, the FCFA. Fortunately a common currency and a monetary union will be introduced in 2020 and this will make it easier to enter the ECOWAS market in the future. There are only 3 official languages in ECOWAS: French, English and Portuguese, much fewer languages when compared with the European Union.

Market Integration Process

ECOWAS member states have taken several measures such as construction of road transport, development and transmission of energy, establishment of a customs union and canceling the visa and entry permit to improve integration. Furthermore, the member states signed the treaty of ECOWAS and set up the Community Court of Justice. ECOWAS also made a new plan for a common external tariff in 2013 which is supposed to be implemented in 2015. The new one will have more detailed measures and careful explanation of each category of products.

Bridgehead

Bridgehead Strategy can be defined as a strategic concept to choose the right starting point in order to enter markets in a new region. Information on intra- and interregional trade can help us indicate the logistical structure within a region. A country with high volume of intraregional trade may already have had an established and working infrastructure and processes that promote the exchange of

goods. From a country with large interregional trade we can expect that there are advanced possibilities to export in the company's home country. Moreover, FDI also provides information like major capital resource, market growth rate or market size for investors. FDI can bring technology and know-how to developing countries in the form of training, technical assistance and other information provided.

Partnership between EU and ECOWAS

In 2000, the European Union and the African, Caribbean and Pacific Group of States ("ACP" countries) signed the Cotonou Agreement in the capital city of Benin to serve as a channel to enhance economic collaboration and as a framework for trade regulation and promoting commerce between the EU and ECOWAS states. Besides that, the EU has supported ECOWAS with financial aid between 2010 and 2014. From 2004 to 2008, exports from the EU to ECOWAS countries had been growing steadily, chemical products, machinery and transport equipment are main exports from EU to Africa.

Key Factor: Finance

Before finding ways and means to finance a business opportunity, the plans to enter the ECOWAS region should already be well-engineered, with an appropriate level of knowledge.

Besides loans, there are still other ways of financing business in ECOWAS, including factoring and crowdfunding.

Below is an overview of various instruments for financing:

- **Loans**
The state-owned loan institute named KfW (Kreditanstalt für Wiederaufbau), and its subsidiary DEG (Deutsche Investition- und Entwicklungsgesellschaft mbH) bear the responsibility for investing abroad.
- **Guarantees**
PwC AG provides guarantees for direct investment abroad (Bundesgarantie für Direktinvestition im Ausland) and guarantees for untied loans (Bundesgarantien für Ungebundene Finanzkredite).
- **Factoring**
Within factoring, a business owner sells accounts receivable at a discount to a third-party funding source to raise capital.
For example Creditreform provides Crefo Factoring with immediate payout of 80-90% of the bought receivable.
- **Crowdfunding**
Crowdfunding could be used to finance certain projects in the ECOWAS region. It is very attractive because the process is very easy – especially for startups, less time consuming and not so tedious. It results in a diversified investor base.
- **Other instruments**
The option can be obtained from the Federal Ministry for Economic Cooperation and Development (BMZ): more precisely from the develoPPP.de program (PPP stands for Public Private Partnership). It supports cooperation between community society and development cooperation.

Challenges

Market Integration Process

Although the commission of ECOWAS has established several measures to improve integration within the area, these measures however almost do not help with the process of supranational legislation and legal systems. Moreover, the economic development of member countries is not balanced; unified external tariffs will inevitably have a bad impact on some of the countries' economies. Another problem could be that the economic structures of ECOWAS countries are very similar, mainly relying on exporting one or two kinds of agricultural goods, which leads to the dilemma of their market integration because of high competition.

Infrastructure & Roads

One of the biggest challenges is the lack of infrastructure, such as the missing postal addresses, the transport way and the energy infrastructure. Not only is the bad quality of the road network a problem, but also the numbering of streets and buildings. Another point to mention are the checkpoints. Almost every country of ECOWAS has built a large number of checkpoints on their highways until now. Furthermore 90% of the electricity generation is by expensive diesel or heavy fuel, the steadily increasing and fluctuating oil prices have a big impact on electricity costs. Therefore, the costs of electricity in West Africa are among the highest in the world. The obsolete infrastructure in energy inflicts a lot of power outages upon the companies in ECOWAS.

Corruption & Management

In addition to the corruption of customs on roads, brokerage is also frequent in the administration. You have to be very careful not to fall for bribery. Moreover, it is recommendable to have a trustworthy local contact person. Furthermore, the way of managing people in Africa is remarkably different from the European management style and the qualification of workers in ECOWAS is also one of the major obstacles for entrepreneurs.

Cultural Aspects

Apart from the 3 main official languages in ECOWAS there are also several indigenous languages in the area. Muslims constitutes the majority of the population in ECOWAS. There are, of course, differences between Germany and ECOWAS in doing business, like preference of checks for payments, more flexible work hours and preference for lower prices over high quality.

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