# Regional Banks, Financial Development, and Regional Integration in West Africa: *The Case Study of Ecobank*

Ross Thuotte

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Advisors: Pearl T. Robinson Ph.D.
Edward Kutsoati Ph.D.
Jeanne Penvenne Ph.D

## Abstract

Over the past sixty years in West Africa, efforts to increase regional economic integration have been a central part of economic policy decisions. However, for many countries in the region, intra-regional trade (a key indicator of regional economic integration,) remains at a disappointingly low level. By investigating the African regional bank Ecobank, this thesis seeks to identify a new regional actor that may be able to impact regional integration in West Africa. The paper will combine literature of 'old regionalism', 'new regionalisms', and the role of the financial sector development in economic growth in order to gain a holistic perspective of how a financial institution may emulate a regional actor. This empirically-based study combines both quantitative and qualitative analyses to identify the mechanisms by which Ecobank may affect the regionalization process. This thesis finds that the presence of Ecobank in a pair of West African countries leads to an increase in trade among the economies of that country pair over time. Another important finding is that the bank's dual mission of generating profits and fostering regional integration is integral to its capacity as a regional actor.

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## Abbreviations

| | |
|---|---|
| AEC | African Economic Community |
| ADM | African Diaspora Market |
| ARIA | Assessing Regional Integration in Africa (UNECA report) |
| BCEAO | Central Bank of West African States |
| BRVM | Bourse Régionale des Valeurs Mobilières (Regional stock exchange) |
| CDO | Collateralized debt obligation |
| CDS | Credit default swap |
| CFA | Communauté Financière Africaine (African Financial Community) |
| EBID | ECOWAS Bank for Investment and Development |
| EBS | Ecobank Senegal |
| ECOWAS | Economic Community of West African States |
| ETI | Ecobank Transnational Inc. |
| EU | European Union |
| FWACC | Federation of West African Chambers of Commerce |
| GTFP | Global Trade Finance Program |
| IMF | International Monetary Fund |
| IFC | International Finance Corporation |
| IFI | International financial institution |
| IPO | Initial public offering |
| MNC | Multinational corporation |
| MNE | Multinational enterprise |
| NGO | Non-governmental Organization |
| NTB | Non-tariff barrier |
| OCA | Optimal currency area |
| OAU | Organization of African Unity |
| REC | Regional Economic Community |
| SAP | Structural Adjustment Program |
| SSA | Sub-Saharan Africa |
| SIV | Structured investment vehicle |
| UNECA | United Nations Economic Commission for Africa |
| USD | United States dollar ($) |
| USAID | United States Agency for Investment and Development |
| WEAMU (UEMOA) | West African Economic and Monetary Union |

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# I. INTRODUCTION

At the start of a new decade and nearly fifty years since independence from colonial rule, many African states still suffer from a myriad of complex problems such as poverty and political instability. The reasons for these problems are disparate and complex. While some of the issues may be traced to the colonial rule in many African countries, their solutions will require the modern-day efforts of Africans at the supranational, state, and local levels.

One strategic response to these problems is regional integration – the theories and policies intended to connect and interweave countries within regional blocs. Despite the reality that regional integration methods adopt numerous forms in the political, social, and economic disciplines, African efforts thus far have mostly focused on economic issues. Regional e*conomic* integration policies seek to increase the volume of trade flows and transactions across borders *within* a region, in relation to flows *outside* the region. These flows are measured by of values of goods and services, ease of labor mobility, and the integration of capital markets.

Up until now, most formal efforts toward regional economic integration have been undertaken by sovereign governments and intergovernmental organizations. Despite these efforts, the African region continues to exhibit the lowest levels of intra-continental trade out of all other global regions. As of 2004, intra-African trade only accounted for around ten percent of total African trade.[1] The sub-region of West Africa follows suit, with similarly low trade data across many of its countries.[2] Therefore, the sovereign and supranational entities which have implemented policy "from the top" have been largely unable to accomplish at least one of the

[1] S. A. Tella and O. A. Akinboade, "ECOWAS Monetary Integration: The Imperatives of Financial Market Development," *Journal for Studies in Economics and Econometrics* 28, no. 2 (2004), 73.
[2] This study focuses on fifteen West African countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

central goals which regional economic integration policy strives to achieve: increased intra-West African trade.[3] One reason might be that these organizations and complex national bureaucracies are often comprised of delegates and leaders who are often more interested in their own short-term personal gains and the interests of their supporting political parties, rather than the progress of long-term regional economic integration.[4] Additionally, many African states are divided by rugged terrain, ethnic fragmentation, and language barriers. There are also intangible barriers which are more difficult to measure, such as the issue of trust between persons of different ethnic groups and nationalities. These limitations, among others, have led to lackluster results from the last twenty five years of regional integration policy.

Conventional regional economic integration policy has sought to use the following mechanisms in an effort to create regional economic communities (RECs) across the continent:

a) elimination of internal tariffs (within regions);
b) fiscal policy harmonization;
c) establishment of common currencies;
d) lowering of non-tariff barriers (NTBs);
e) the establishment of common external tariffs.

It is assumed that these activities will help promote positive growth, such as that seen in the European Union (EU), in which over sixty percent of trade is intra-EU.[5] This thesis will focus on both past and current efforts towards increasing regional economic integration among West African countries, namely in the form of intra-regional trade. Specifically, this study hopes to shed light on the application of newer forms of regional integration theory which recognize a

[3] UN Economic Commission for Africa, *Assessing Regional Integration in Africa III*,[2008].
[4] Dean M. Hanink and J. Henry Owusu, "Has ECOWAS Promoted Trade among its Members?" *Journal of African Economies* 7, no. 3 (1998), 104.
[5] World Trade Organization, *International Trade Statistics*, 2009), 178.

range of non-state actors, in addition to the sovereign states and intergovernmental regional organizations. This thesis will introduce a new potential actor, Ecobank, a private regional financial institution, into the regional framework.

### *A Brief Overview of Regional Integration*

The slow progress thus far initiated by intergovernmental political institutions exposes their limitations in accomplishing the goal of increased regional economic integration. Carefully written policies are often produced and not enforced. Sovereign West African governments often lack the cooperation and common interests necessary to support regional development projects. Even well-established intergovernmental organizations, such as the Economic Community of West African States (ECOWAS), often lack funding and authority to implement policies. Therefore, it may require the efforts of other actors to further the regional integration of Africa. What scholars are now referring to as the 'new regionalisms' are defined in the attempt to identify and spur these other actors in to action. This thesis will focus specifically on the role of non-state actors in the form of regional financial intermediaries. Regional banks such as the African-based Ecobank are tools designed to combat the regionalization problem from the "bottom up" – through on-the-ground business and enterprise rather than through elaborate policy schemes and complex bureaucracies.

### *Thesis Outline*

This thesis will first focus on the past and current literature on regional economic and financial integration in West Africa. The literature review will cover conventional forms of regional integration policy known as the 'old regionalism'. The study will then continue on to describe ‘new regionalisms’ theory, a school of regionalist thought which has emerged since the end of the Cold War. New regionalisms emphasize the role of non-state actors in the regional integration process. Of specific relevance to this thesis are those non-state actors which are private multi-national enterprises (MNEs). It is important to note that the theories of ‘new regionalisms’ are not meant as substitutes for the conventional old regionalism. Instead, each category of theories must work concomitantly to explain, orient policies, and ultimately tackle the problems currently facing regional integration efforts in Africa. Finally, the literature review will recount the literature that is specific to financial sector development and its impact on growth. This last review is necessary to more fully understand the case study of Ecobank; specifically the bank’s operations and ultimate implications for growth and regional integration.

The thesis will then introduce the case study of Ecobank and will examine the bank’s origins and their importance in current-day banking operations. This chapter also identifies the bank’s dual mission/philosophy, which has been incorporated into the bank’s business model. The subsequent chapter further details the Ecobank Senegal subsidiary; its strategy, performance, and operations.

The overview of the bank’s operations will be followed by a directional trade data analysis section to determine whether there is a link between Ecobank presence and changes in intra-West African trade. The bank’s expansion path (and timeline) from country to country allows a perspective into the potential effects of the bank on intra-West African trade. A preliminary graphical analysis of trade data provokes the need for more in-depth statistical regression analysis, which is also included in this chapter.

Finally, the thesis will conclude by conducting a qualitative analysis attempting to identify the specific mechanisms by which the bank may be impacting the regional integration process. This chapter combines the literature of new regionalisms with that of financial development and applies them to the Ecobank scenario in order to provide a fuller perspective on the channels through which the bank may be affecting the process.

This thesis takes an interdisciplinary approach which seeks to bring a more holistic understanding to the regional integration debate. After all, effective regional integration among West African states will require advances in economic, public, and social policies. This thesis hopes to provide a more thorough analysis by drawing from a mix of regional integration theories and connecting them to a concrete case study.

This thesis agrees with some of the recent literature in that up until this point, the Regional Economic Community (REC) model for economic integration in West Africa has fallen short of its intended goals.[6] While the region has seen some successes in terms of regional economic integration, many West African countries still exhibit fragmented economies characterized by a multitude of non-convertible currencies, a lack of fiscal and monetary policy convergence, and low levels of intra-regional trade.

One regional institution that has drawn attention in the regional arena is the African regional bank, Ecobank. The quantitative analyses conducted in this thesis indicate that Ecobank presence in a country pair often contributes to an increase in that pair's trade. On the qualitative side, Ecobank's synergistic dual mission seems to be a significant help in allowing the bank to contribute to the regional integration process. Using several perspectives of new regionalisms theory, this thesis attempts to explain how the Ecobank model can help facilitate regional

[6] Tella and Akinboade, *ECOWAS Monetary Integration: The Imperatives of Financial Market Development*, 65-90. E. Olawale Ogunkola, *An Evaluation of the Viability of a Single Monetary Zone in ECOWAS* (Nairobi: African Economic Research Consortium, 2005), 53.; Réal P. Lavergne, *Regional Integration and Cooperation in West Africa: A Multidimensional Approach* (Trenton, NJ: Africa World Press, 1997), 350.

integration. In short, the Ecobank model demonstrates how a financial institution, *outside* of the existing intergovernmental system framework (which is inherently linked to the state), can integrate intra-regional markets and foster regional economic integration from below.

The idea of regional integration "from below" is not new. However, because of its status as a *financial institution,* Ecobank may be an often-overlooked actor and a significant contributor to regional integration. By operating as an efficient private sector enterprise and providing financial support to an economy, banks can serve as lubricant to growth for the rest of the economy. In other words – no business can survive without capital to support its operations, and by corollary, no business can survive without institutions (financial intermediaries) to manage and administer that capital. Through this mechanism (and others to be detailed in later chapters), a small change in the banking sector may result in much greater changes throughout the regional West African regional economy. Rather than being left out of the regional economic integration equation, Ecobank should be treated as a potential actor in the process.

# II. LITERATURE REVIEW

## Regional Economic Integration in Africa

At the broadest level, regional economic integration is defined as a process which intends to facilitate trade and forms of institutional cooperation amongst otherwise fragmented economies in given region. Regional *economic* integration theories are distinct from regional *political* integration theories such as functionalism and neo-functionalism. Functionalism hypothesizes that separate sovereign states might eventually form more solid relationships by first cooperating to provide common services (such as joint management of scarce resources).[7] Neofunctionalism builds on this idea and sets out a conceptual vocabulary, set of actors, and context by which to analyze functional integration among states.[8]

The end goal of *economic* regional integration is to promote economies of scale and wider markets, therefore increasing economic growth (and ideally, economic well-being) for the majority of citizens. As a result, these (often) relatively small and fragmented economies can gain access to larger markets, reduced transaction costs, and greater bargaining power with foreign partners. The regional integration process can also help the countries operate as one unified economic body – much as the European Union, in which the states collaborate on certain issues (common central bank, EU parliament, etc.) Ideas have long-since circulated in Africa regarding the integration of the continent and its sub-regions. Forefathers Kwame Nkrumah and Julius Nyerere provide the foundations for much of the literature on African regionalism. Both

[7] David Mitrany, *A Working Peace System; an Argument for the Functional Development of International Organization* (London, The Royal Institute of International Affairs; New York, Toronto: Oxford University Press, 1943).
[8] Joseph S. Nye, Harvard University and Center for International Affairs, *International Regionalism; Readings* (Boston: Little, Brown, 1968), 432.

claim (albeit through different methods) that regional integration is a key to ensuring a better future for the African continent.[9]

This thesis hones in on aspects of regional economic integration theory that are directly relevant to the Ecobank case, the banking sector, and how the bank might affect regional integration.

## "Old Regionalism"

*Origins*

One central concept is the progression by which a state moves toward full regional economic integration, which Béla Balassa (1961) outlines in five steps:

1) a free trade area;
2) a customs union;
3) a common market;
4) an economic and monetary union;
5) a political union.[10]

This sequence has heavily influenced much of the state-led efforts toward African integration that policymakers have implemented. This influence is illustrated in an extensive report on Africa entitled "Assessing Regional Integration in Africa" (ARIA), which was published by the United Nations Economic Commission for Africa (UNECA).[11]

Deriving principally from the European Community model, the 'old regionalism' theories focus on classic economic theories, functionalist, and neo-functionalist ideas. Since the

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[9]Kwame Nkrumah, *Africa must Unite* (New York: F.A. Praeger, 1963), 229.; Julius K. Nyerere, "A United States of Africa," *Journal of Modern African Studies* 1, no. 1 (1963), 1-6.
[10] Tella and Akinboade, *ECOWAS Monetary Integration: The Imperatives of Financial Market Development*, 67.; Béla Balassa, *The Theory of Economic Integration* (Illinois: Homewood, 1961).; Marianne H. Marchand, Morten Bøås and Timothy M. Shaw, "The Political Economy of New Regionalisms," *Third World Quarterly* 20, no. 5 (1999), 901.
[11] UN Economic Commission for Africa, *Assessing Regional Integration in Africa III*

expansion of the European Union via the Maastricht treaty in 1993, the European integration process has served as a blueprint for regional integration processes in South America, Asia, and Africa.[12] Balassa's model provides the basis for two of the main *economic* models of the old regionalisms: customs union theory and optimal currency area theory.[13]

### *Customs Union Theory*

Customs union theory focuses on the welfare effects of market convergence, namely the elimination of cross-border (intra-regional) tariffs and the simultaneous levying of tariffs on non-member countries (common external tariff). Thus, a customs union lowers transaction and transportation costs in order to facilitate intra-regional trade among members of sub-regions.[14] Proponents of customs union theory believe that if managed properly, a customs union can create other gains in:

1) the allocation of resources and international specialization;
2) the exploitation of scale economies;
3) the terms of trade;
4) the distribution of income;
5) profit margins.[15]

For example, when markets are expanded through this process, producers have more customers and can generate more goods and revenue. Customers on the other hand, have access to a wider array of products at lower prices. In addition, the common external tariff can give producers inside the customs union a price advantage against foreign competitors.

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[12] Marchand, Bøås and Shaw, *The Political Economy of New Regionalisms*, 901.
[13] Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999), 19.
[14] Ibid., 32
[15] Peter Robson, *The Economics of International Integration*, 4th ed. (London: Routledge, 1998), 17.

*Optimal Currency Area Theory*

While customs union theory deals with markets for goods, optimal currency area (OCA) theory focuses on the criteria necessary for a currency union – the use of a single and shared currency by all members of a sub-region.[16] Robert Mundell (1961) explains how a currency union should occur when countries within a sub-region exhibit symmetric shocks (*i.e.* different countries that experience the same economic shocks would tend to agree with each other on economic policy decisions.) Conversely, countries which experience asymmetric shocks (such as those within certain African sub-regions) would often *not* agree on economic and monetary policy decisions. For example, an oil price shock would differently affect the economies in Mali and Nigeria: one is a net importer of oil and the other a net exporter. Therefore, the two countries might disagree on the policy measures used to mitigate the negative effects of the oil price shock. However, Mundell does suggest some means by which countries with asymmetric shocks might still form beneficial currency unions. In this latter scenario, such economies could minimize the negative effects of asymmetric shocks by increasing wage and price flexibility, fiscal transfers, and improving labor mobility.[17] Unfortunately, language barriers and ethnic fragmentation impede the progress of labor mobility across West African borders.

*Benefits and Drawbacks of an OCA*

A study conducted by Andrew Rose (2000) finds that membership in a currency union could increase a sub-region's intra-regional trade by a factor of three.[18] Theoretically,

[16] Mattli, *The Logic of Regional Integration: Europe and Beyond*, 34.
[17] Paul Masson, *The Monetary Geography of Africa* (Washington D.C.: Brookings Institution Press, 2005), 34.
[18] Andrew Rose, "One Money, One Market: Estimating the Effect of Common Currencies on Trade," *Economic Policy* 9 (2000), 9-45.

transaction costs of trade are reduced by the decrease in exchange rate volatility (traders would no longer fear profit loss from exchange rate fluctuations.) For example, a Malian importer who buys goods from Senegal does not have to worry about losing profits as a result of a change in the exchange rate between the two countries (both use the same currency, the CFA franc). Céline Carrère (2004) also finds that in most African economic communities, a common currency has a significant positive impact on intra-regional trade. This impact reinforces what she finds to be positive gains from the regional economic agreements themselves.[19] Additionally, monetary unions negate an individual country's ability to print money to finance its debt, a process known as segniorage.[20] This, in turn, can help prevent irresponsible leaders or central banks from causing unstable currencies and/or currency crises.

Despite their theoretical benefits, OCAs can be risky to their members. In many instances, economic collapse in one OCA member country can lead to contagion, increased risk, and possible currency collapse for all countries in the union. To combat this potential risk, currency unions (such as the CFA franc) can peg their currencies to the dollar or Euro. However, leading up until 1994, the CFA franc (despite being pegged to the French franc) became overvalued and eventually had to be devalued to maintain African export competitiveness with other countries (West African goods had become too expensive relative to other countries.) Developed countries in OCAs (notably, the Euro-zone) are also vulnerable to currency problems, as exposed by the Greek debt crisis in 2010.

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[19] Céline Carrère, "African Regional Agreements: Impact on Trade with Or without Currency Unions," *Journal of African Economies* 13, no. 2 (2004), 199-239.

[20] Ogunkola, *An Evaluation of the Viability of a Single Monetary Zone in ECOWAS*, 8.
The inability to control one's monetary policy can also be detrimental, as a currency cannot be devalued in time of crisis. This concept is illustrated by the 2010 Greek debt crisis.

*Persistence of the "Old" Regionalism*

While newer regionalist lines of thought have superseded the old regionalism, vestiges of old regionalism are extremely prevalent in the modern African political system. One of these vestiges, the Regional Economic Community (REC) model, is still the prime focus for African regional economic integration efforts (as detailed in the following sub-section). Rather than attempting to integrate Africa as a whole continent all at once, the REC model seeks to first develop small, well-functioning, sub-regional economies before integrating these RECs into one common African market, the African Economic Community (AEC).[21] A treaty signed by the members of the Organization of African Unity (OAU, now the African Union) proposes the completion of the AEC by 2025.[22] However, African economies have made little progress in establishing the AEC, and as Margaret Lee (2004) explains it, the AEC still remains a figment of the imagination.[23] Despite the lack of progress however, there are still visible proponents of the idea of a unified African economy, such as the leader of Libya and former chairperson of the African Union, Muammar Gaddafi. Aspirations of a unified Africa are also reflected in some of the recent literature.[24] UNECA's ARIA report also indicates that the African regional communities continue to pursue the goals of old regionalism.[25]

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[21]UN Economic Commission for Africa, *Assessing Regional Integration in Africa III*
[22] *Treaty Establishing the African Economic Community,* (1991): 11.
[23] Margaret Lee, *The Political Economy of Regionalism in Southern Africa*Lynne Reinner Publishers, 2004), 39.
[24] John Akokpari, "Building a United Africa," in *The African Union and its Institutions*, eds. John Akokpari, Angela Ndinga-Muvumba and Timothy Murithi (Cape Town: Fanele; Centre for Conflict Resolution, 2008).
[25] UN Economic Commission for Africa, *Assessing Regional Integration in Africa III*

*Old Regionalism in Practice: The Economic Community of West African States*

Founded in 1975, the Economic Community of West African States (ECOWAS) is an intergovernmental regional organization comprised of fifteen states.[26] The regional agreement between the governments is intended to foster cooperation and trade among the member countries. With a total population of over 250 million (as of 2006), leaders of the West African states hope that integration will lead to a number of benefits for the members and their citizenries. ECOWAS is responsible for many of the regional integration efforts currently taking place in West Africa. As outlined in its revised treaty, ECOWAS intends to create a common market, via establishing a customs union and eventually, a common currency zone.[27] Once again, these measures are vestiges of old regionalism theory.

Yet until this point, many of ECOWAS' efforts aimed at integrating West African economies have fallen short of their intended goals.[28] There have been some successes by ECOWAS, such as the establishment of an often-effective West African security regime. Other successes like the currency union among eight of the (French-speaking) member states were not spearheaded by ECOWAS and are instead, vestiges of the colonial era. Regardless, policymakers continue to find difficulty in fostering intra-regional trade in the sub-region. This might be due to the fact that many unsuccessful development programs have not reflected "the actual geography and history" of the region in which they have been implemented.[29] Additionally, ECOWAS' cocktail of anglophone, francophone, and lusophone member states all

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[26] The current members are: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.
[27] Economic Community of West African States, *ECOWAS Treaty*, 1993
[28] Lavergne, *Regional Integration and Cooperation in West Africa: A Multidimensional Approach*, 35.
[29] Allen John Scott, *Regions and the World Economy: The Coming Shape of Global Production, Competition, and Political Order* (Oxford: Oxford University Press, 1998), 117.

exhibit different (and often incompatible) linguistic, institutional, and legal legacies, as well as trading patterns.

Percy Mistry (2000) argues that integration efforts implemented between 1965 and 1995 were largely unsuccessful because of the disconnect between regional commitments and national commitments. In other words, the unwillingness of national political interests to submit to long-term economic interests led to the absence of concrete mechanisms for integration, such as monitoring and enforcement mechanisms.[30] Another important point for Mistry is that African shipping links are oriented toward *extra*-African trade, rather than intra-African. Transport costs *among* African countries are much higher than those between African and European countries, and often account to between 30-50% of the total selling cost of a certain good.[31] This is not surprising considering that much of African infrastructure was built during the colonial era, often with the intention of extracting resources from the continent – not for trading within it. This lack of regional infrastructure hinders the flow of goods throughout the region. Regional infrastructure improvements could alleviate the high transaction costs of intra-West African trade – but the projects are often costly, inefficient, and lack sustained and joint political support. ECOWAS has attempted to meet these challenges by establishing the ECOWAS Bank for Investment and Development (EBID), which is explained in a Chapter VI.

Thus, while ECOWAS has been successful in endeavors such as establishing a security regime in West Africa, because of difficulties in policy implementation and financial support, it has essentially failed to spur significant increases in intra-regional trade. Dean Hanink and Henry Owusu (1998) find that the establishment of ECOWAS as a regional body has not

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[30] Percy S. Mistry, "Africa's Record of Regional Co-Operation and Integration," *African Affairs* 99 (2000), 558.
[31] Ibid., 555

significantly contributed to intra-West African trade.[32] The UNECA ARIA report finds that ECOWAS countries do not exhibit strong evidence of per capita income convergence – one measure of regional economic integration.[33] Additionally, the report finds that convergence in inflation rates (another such measure) within ECOWAS occurred only among those countries using a common currency, the CFA franc. Despite the lack of improvements in these criteria for regional economic integration, much of regionalism policy has continued on this old regionalism route.

### "New Regionalisms"

Due to the shortcomings of a) old regionalism, b) the Washington consensus model (promotion of trade liberalization at all costs), and c) the IMF and World Bank-supported Structural Adjustment Programs (SAPs), new forms of regionalism theory have emerged over the past twenty years.[34] During the mid-1980s, these IMF and World Bank-supported policies of unilateral trade liberalization were often contingent upon measures taken by African states to increase democratization and/or to increase trade with the United States. The successes of the SAPs were highly dependent on the countries and situations in which they were implemented. Their viability as a policy tool continues to be widely debated among scholars.[35]

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[32] Hanink and Owusu, *Has ECOWAS Promoted Trade among its Members?*, 363.
[33] UN Economic Commission for Africa, *Assessing Regional Integration in Africa III*
[34] Mistry, *Africa's Record of Regional Co-Operation and Integration*, 559.
[35] Chibuike Uche, "The Politics of Monetary Sector Cooperation among the Economic Community of West African States Members," *World Bank Policy Research Working Paper*, no. July (2001), 29.; Timothy M. Shaw, "New Regionalisms in Africa in the New Millennium: Comparative Perspectives on Renaissance, Realisms and/or Regressions," in *New Regionalisms in the Global Political Economy : [Theories and Cases]*, ed. Shaun Breslin (London ; New York: Routledge, 2002), 407.; Seth Kaplan, "West African Integration: A New Development Paradigm?" *The Washington Quarterly* 29, no. 4 (2006), 87.

'New regionalisms' is a term that was created in order to describe the complex maze of regionalisms which have come about after the fall of the Soviet Union.[36] Bjorn Hettne (1998) distinguishes the new regionalism from the old in that the new "must be seen as a new political landscape in the making, characterized by several interrelated dimensions, many actors, and several interacting levels of society."[37] According to Timothy Shaw (2002), these new regionalisms seek to, "capture the diversities of definition and interaction, such as the 'Europe' defined by the MNCs [multinational corporations] or mafias."[38] Scholars such as Hettne and Soderbaum characterize the new regionalisms by their "multidimensionality, complexity, flexibility, fluidity, and non-conformity."[39] In other words, new regionalisms (in the economic context) can go beyond trade liberalization and classic economic theories, and can result in dynamic gains and spillover effects, which have been omitted by previous regional economic integration theories.[40] Improved cooperation among different institutions within a region can reduce market imperfections, create portfolio diversification opportunities for investors, allow firms to be more competitive, and increase factor mobility.[41] For example, better communication among institutions can lead to a higher level of information exchange, allowing entities to make more informed decisions. These institutions can also exchange resources and business ideas. This is especially prevalent when observing interactions among enterprises in the private sector.

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[36] Lee, *The Political Economy of Regionalism in Southern Africa*, 28.
[37] Bjorn Hettne and Fredrik Soderbaum, "The New Regionalism Approach," *Politeia* Special Issue: the new regionalism (1998), 550.
[38] Shaw, *New Regionalisms in Africa in the New Millennium: Comparative Perspectives on Renaissance, Realisms and/or Regressions*, 179.
[39] Hettne and Soderbaum, *The New Regionalism Approach*
[40] Percy S. Mistry, "New Regionalism and Economic Development," in , eds. Fredrik Soderbaum and Timothy M. Shaw (Great Britain: Palgrave MacMillan Ltd, 2003), 122.
[41] Ibid., 122

*Role of the Private Sector in Regional Integration*

Chris Enyinda *et al* (2000) argue that the private sector is never passive in the process of regional economic integration. This assessment of trade policy in Africa points out that state-centric-institutions have traditionally been responsible for much of the efforts toward regional integration. These institutions have given limited roles to private and non-state actors.[42] But Marianne Marchand *et al* (1999) note that while regionalism is a political project, it is not necessarily carried out by the state and its actors. There are many other actors involved in regionalization: NGOs, media, corporations, and a range of actors based in the second economy of the informal sector.[43] Societies and networks – such as charities, cooperatives, grass-roots groups, the women's movement, and professional organizations – can also impact the process.[44] Aili Tripp *et al* (2009) uses the example of the women's movement to illustrate how a measure that is completely autonomous from the state can still use international and regional institutions to disseminate female-friendly policies and impact meaningful change.[45]

Furthermore, some of these non-state actors can potentially have larger effects on the integration process than other state-led ventures. For example, Uka Ezenwe (1983) argues that MNCs sometimes have more access to capital markets and international financial institutions (IFIs) like the IMF and World Bank than their public counterparts, as well as to more advanced technologies.[46] Under this assumption, private banks like Ecobank can sometimes have better access to IFIs than government run banks such as the Central Bank of West African States

[42] Chris Enyinda, Emmanuel Obuah and Alphonso Ogbuehi, "The Role of Multinational Enterprises in West African Regional Economic Integration: An Assessment and Trade Policy Implications," *Journal of African Business* 1, no. 2 (2000), 38.
[43] Marchand, Bøås and Shaw, *The Political Economy of New Regionalisms*, 900.
[44] Shaw, *New Regionalisms in Africa in the New Millennium: Comparative Perspectives on Renaissance, Realisms and/or Regressions*, 179.
[45] Aili Mari Tripp and others, *African Women's Movements : Transforming Political Landscapes* (Cambridge ; New York: Cambridge University Press, 2009).
[46] Uka Ezenwe, *ECOWAS and the Economic Integration of West Africa* (New York: St. Martin's Press, 1983), 210.

(BCEAO). Omoniyi Adewoye (1997) emphasizes the instrumental role of transnational enterprises in the integration of Europe's economies. The paper goes on to claim that an unpredictable business environment impedes the West African private sector from thriving and contributing in a similar manner.[47] MNCs by definition seek primarily to provide value to their shareholders – thus are incentivized to operate efficiently and maximize profits. This attribute effectively distinguishes MNCs from government-run institutions and policies. The Ecobank model will demonstrate a regional financial institution's ability to take advantage of these dynamics.

*Critical perspectives of the New Regionalisms*

Not all scholars are impressed with the idea of new regionalisms. John Lovering (2002) criticizes new regionalism theories for being vague, overly broad, and not grounded in substantial empirical research.[48] Kate Meagher (2008) questions how largely uncoordinated regional initiatives can address the problems of wide variations in levels of economic development, weak administrative capacity, and underlying causes of economic and political stability.[49] Meagher continues on to argue that both "new regionalisms" and "newer regionalisms" often seek to push their own variant of liberalization under the guise of regionalist policy.[50]

The literature on new regionalisms is extensive, yet it still represents only a foray into a relatively new branch of regional integration theory. Consequently, there are few specific case

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[47] Omoniyi Adewoye, "Constitutionalism and Economic Integration," in *Regional Integration and Cooperation in West Africa: A Multidimensional Perspective*, ed. Réal P. Lavergne (Trenton: Africa World Press, 1997), 329.
[48]John Lovering, "Theory Led by Policy: The Inadequacies of the 'New Regionalism' (Illustrated from the Case of Wales)," *International Journal of Urban and Regional Research* 29, no. 2 (2002), 392.
[49] Kate Meagher, "New Regionalism Or Loose Cannon?" in *Gulliver's Troubles: Nigeria's Foreign Policy After the Cold War*, eds. Adekeye Adebajo and Abdul Raufu Mustapha (South Africa: University of Kwazulu-Natal Press, 2008), 163.
[50] Ibid., 164

studies (let alone, African case studies) that are designed to illustrate the real-world effect of the fundamental theories of the new regionalisms.

For the purposes of this study, "new regionalisms" are defined as concepts, ideas, policy methods, and structures which reach beyond the conventional REC model and seek to understand the multiplicity of actors within the broader regional framework and the mechanisms by which these actors affect regional economic integration. These mechanisms extend beyond the conventional regional economic integration policies which focus mostly on lowering tariff barriers, creating common currencies, and forming customs unions. Through networks and both formal and informal institutional relationships below the intergovernmental and state levels, these actors can provide services and disseminate rhetoric which can impact the regional integration process. The actors in the new regionalism category operate simultaneously with sovereign state and intergovernmental organization efforts.

This thesis will use elements of the new regionalism framework to understand the effects of one non-state actor, Ecobank. This thesis hopes to contribute to the regionalism literature by introducing the bank as an actor into the regional integration framework. It will also bring attention to the idea of a dual organizational mission – a mission in which the two tenants operate symbiotically.

## Finance and Economic Development

The debate over the role of finance in economic development is an extensive and long-standing one. Joseph Schumpeter (1912) argues that services provided by financial intermediaries are essential to the generation of economic growth, rather than simply byproducts of the growth itself. These services include facilitating transactions, managing risk, evaluating savings, and evaluating projects.[51] If financial innovation is used towards productive means such as financing private sector growth and profitably investing employees' savings, economic growth will often be the end result.[52] On the other hand, there are some economists, notably Joan Robinson (1952), who contend that financial development is relatively unimportant for economic growth.[53] This view argues that, "where enterprise leads, finance follows."[54] However, in recent years, several economists have compiled expansive cross-country analyses that have made strides to establish the direction of a causal link between the development of a country's financial sector and its economic growth.[55]

Robert King and Ross Levine (1993) serves as a seminal work which attempts to construct a strong empirical link between finance and growth. By assessing growth through four variables, they find that finance "does not only follow economic activity," but rather that the "predetermined component of financial development is a good predictor of long-run growth over the next 10 to 30 years."[56] This research is innovative in that it uses a combination of variables to distinguish between private banks' assets and central banks' assets – a relevant distinction for many developing countries whose central banks often control a large portion of the banking sector. The King and Levine paper also attempts to establish whether banks are lending to public government institutions or private companies. Sara Zervos (1998) supports King and Levine's

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[51] Joseph Schumpter, *The Theory of Economic Development* (Cambridge: Harvard University Press, 1912).
[52] As demonstrated in the 2007-2008 financial crisis, financial sector innovation can also result in financial products which do not directly contribute to growth. Examples include many financial derivatives, collateralized debt obligations, credit default swaps, and off-balance sheet structured investment vehicles.
[53] Joan Robinson, *The Rate of Interest and Other Essays* (London: Macmillan, 1952).
[54] Robert G. King and Ross Levine, "Finance and Growth: Schumpeter might be Right," *The Quarterly Journal of Economics* 108, no. 3 (1993), 730.
[55] Ross Levine and Sara Zervos, "Stock Markets, Banks, and Economic Growth," *The American Economic Review* 88, no. 3 (1998), 537-558.; King and Levine, *Finance and Growth: Schumpeter might be Right*
[56] Ibid., 719

results and finds that these services provided by financial intermediaries are essential to long-term growth.[57]

Between 2003 and 2008, World Bank surveys carried out in West Africa found that a significant percentage of businesses in the region lack sufficient access to finance. Raghuram Rajan and Luigi Zingales (1998) attempt to identify the actual mechanisms by which finance might help this type of business growth. Specifically, they find that firms which require higher levels of *external* financing (loans from banks, as opposed to *internal* financing from within the firm) will benefit more from access to financial capital.[58] These firms tend to be ones that conduct a greater amount of research and development or make other long-term, up-front investments. This finding is useful in understanding the role of financial development in developing African states, many of which rely mostly on resource-exporting and manufacturing industries as opposed to research and technology intensive industries such as pharmaceuticals. All of the cited cross-country analyses use numerous variables to control for discrepancies in political stability, levels of productivity, physical capital, etc. It is important to note however, that the link between financial development and growth seems to be country-specific.[59] Thus, the cross-country analyses can provide a broader empirical framework which must then be applied on the country-level.

By combining the literature of regionalism and the role of financial sector development in economic growth, this thesis seeks to bring a new perspective on future potential regional economic integration efforts. This broad survey of the literature is necessary to understand

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[57] Levine and Zervos, *Stock Markets, Banks, and Economic Growth*, 539.
[58] Raghuram G. Rajan and Luigi Zingales, "Financial Dependence and Growth," *American Economic Review* 88, no. 3 (1998), 559-586.
[59] Indrani Chakraborty, "Does Financial Development Cause Economic Growth? the Case of India," *South Asia Economic Journal* 9, no. 1 (2008), 134.

regional banks and their relevance to regional economic integration. Additionally, by applying this combination to the Ecobank case study, this thesis hopes to contribute a foundation for future quantitative and qualitative research on both Ecobank and the broader group of regional financial institutions in Africa.

# III. THE PAN-AFRICAN BANK: ECOBANK'S ORIGINS AND OPERATIONS

> "Ecobank has been successful because it is considered an independent regional institution belonging to no one country or interest group...The regional strategy and independent status of Ecobank are fundamental to the founding principles of Ecobank and to its long-term success."[60]

### Founding Philosophy

The origins of Ecobank are crucial to the bank's ability to help foster regional integration in West Africa and throughout the continent – origins which lay the foundation from which the bank quickly launched into the competitive world of international banking. An understanding of the conditions surrounding this initial startup might also be useful to nascent regional organizations looking for clues to succeed in the West African economic environment.

According to Ehouman Kassi, the Managing Director of Ecobank's Senegal subsidiary, a defining characteristic and one that distinguishes Ecobank from other African banks is its initial philosophy (i.e. the regional strategy), which has a direct and explicit focus on promoting regional integration.[61] Africa-based subsidiaries of European or American-owned banks do not share this characteristic. Kassi, a high level executive employee of the parent Ecobank Transnational Corporation stressed that Ecobank's mission is twofold – to generate value for its shareholders, and to promote regional economic integration within West Africa (and eventually, the entire continent.) In 2006 the group CEO, Arnold Ekpe, emphasized the same message: "We have a dual mission: to run a world class bank and [to promote] the economic and financial

[60] Ecobank Transnational Inc., *Annual Report*, 2006
[61] Ehouman Kassi, Interview with Ecobank Senegal Executive Director, 2009 (conducted 7/31/2009).

integration of Africa."[62] The bank and its marketing team have aggressively promoted this mission in the company's slogan ('Ecobank: the Pan-African bank') and numerous other company-published documents. It also appears that this mission is not simply rhetorical or symbolic but instead is integrated into the business model as indicated by the bank's expansion throughout the region, offering of services, and establishment of multiple institutional networks (as detailed in Chapter VI.)

*Ecobank in the 1980's: a Revolutionary Idea*

Ideas for the bank first circulated in 1979, when several presidents of the Federation of West African Chambers of Commerce (FWACC)[63] wanted to support the creation of a bank which could help facilitate trade across West African borders.[64] The FWACC was comprised of presidents of the national chambers of commerce, which in turn were composed of private business-owners throughout the sub-region. The FWACC teamed up with ECOWAS to put the Ecobank plan into action and facilitated the initial capital-raising process for the bank. The required initial $100 million USD came in the form of investments from ECOWAS member countries (Figure 1).[65] Once the bank had been

| Shareholder | % |
|---|---|
| ECOWAS Fund | 20.0 |
| Benin | 3.5 |
| Burkina Faso | 4.0 |
| Cape Verde | 1.0 |
| Ivory Coast | 10.0 |
| Gambia | 1.0 |
| Ghana | 3.0 |
| Guinea Bissau | 2.0 |
| Guinea | 1.0 |
| Liberia | 3.5 |
| Mali | 2.0 |
| Mauritania | 1.0 |
| Niger | 3.5 |
| Nigeria | 30.0 |
| Senegal | 7.0 |
| Sierra Leone | 3.5 |
| Togo | 4.0 |
| **Total** | **100.0** |

**Figure 1: Shareholder Allocation (% of total)**

62 Anver Versi, "Ecobank's Arnold Ekpe," *African Business*, 2007, 28.
63 The FWACC since changed its name to the "Federation of West African Chambers of Commerce and Industry"
64 Staff writer, "Africa's First Offshore Bank," *Multinational Business*, no. 1 (1986), 32.
65 Ibid.

established, an initial public offering (IPO) was conducted to sell shares of Ecobank to the general public. The Ecobank venture between the two institutions was appealing to ECOWAS because:

a) the objectives were in line with ECOWAS' economic goal of seeking tangible benefits for West African member states;
b) both institutions understood the vital role of banking and financial services in facilitating development of industry and commerce;
c) both institutions wanted to create a private African bank that could compete with European banks on the continent and perform in the international market.[66]

The FWACC aided the process by creating and distributing a brochure (prior to the establishment of Ecobank) which set out the objectives, functions, and potential benefits of this new institution.[67] According to the brochure, Ecobank's key objectives were to

a) mobilize and promote both private and public savings for productive investment;
b) promote intra-ECOWAS trade;
c) help to finance the implementation of development projects (via an independent subsidiary);
d) encourage the strengthening of the African banking sector throughout ECOWAS.[68]

However, after the bank's initial opening, ECOWAS ceased to have any formal relationship with Ecobank. While the bank's efforts continue to be in line with ECOWAS' goals for regional

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[66] Enyinda, Obuah and Ogbuehi, *The Role of Multinational Enterprises in West African Regional Economic Integration: An Assessment and Trade Policy Implications*, 49.
[67] Ibid., 44
[68] Ibid., 50

economic integration (mainly in the form of increased intra-regional trade), Ecobank operates as an independent entity; ECOWAS does not engage in direct banking operations.[69]

*Timeline of Subsequent Subsidiary Openings*

Through the signing of a headquarters agreement with the Togolese government, the Ecobank parent holding company, Ecobank Transnational Inc. (ETI) was founded in Togo in 1986. Arnold Ekpe, the current Group CEO said that Togo suited the bank's regional objectives and provided a central location to operate throughout the West African region.[70] According to the agreement, ETI is to enjoy the same immunities, privileges, and fiscal exemptions as a 'non-resident company' or an international financial institution, thus allowing the ETI parent company to operate free of many of the regulations normally imposed on private banks operating within Togo. This includes exemption from taxes on income and bond interest. In light of this, it is agreed that taxes on Ecobank profits will be paid via the subsidiaries in each Ecobank member country. Under the agreement, Ecobank parent company does not conduct any direct banking operations; rather, it provides advisory support to its subsidiaries. The subsidiaries, in turn, provide the actual financial services to all Ecobank customers. Finally, ETI employees are given privileges similar to those of employees of international organizations.[71] This allows parent company employees to work in any of the Ecobank member countries.

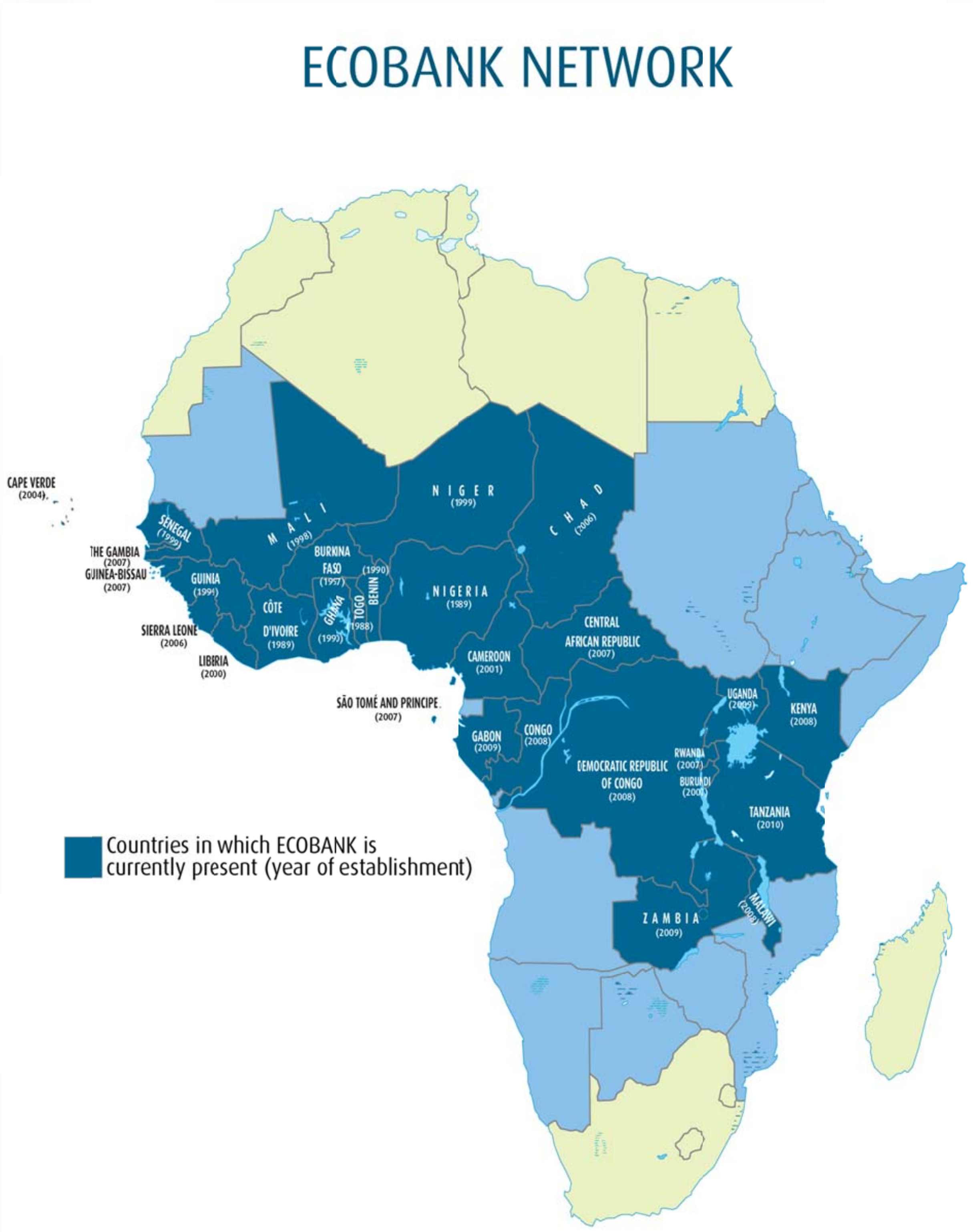
Over the twenty-five year period following the headquarters agreement, ETI facilitated its subsidiary openings across the West African region and eventually, the continent. These continued regularly in West Africa: Togo (1988), Nigeria and Côte d'Ivoire (1989), Ghana and Benin (1990), Burkina Faso (1997), Mali (1998), Guinea, Niger, and Senegal (1999), Liberia

[69] Tella and Akinboade, *ECOWAS Monetary Integration: The Imperatives of Financial Market Development*, 76.
[70] Dianna Games, "Ecobank's Brave Route to the Top in 'Middle Africa'," Africa News Service,
[71] Ecobank Transnational Inc., *Share Offer Prospectus*,[2008].

(2000), Sierra Leone (2006), and the Gambia and Guinea Bissau (2007). After 2001, Ecobank expanded its growth vision across all of "Middle Africa", an area which includes all countries found between South Africa and the North African region: Cameroon (2001), Chad (2006), Rwanda, Sao Tome & Principe, and Central African Republic (2007), Malawi, Congo Brazzaville, Kenya, Burundi, and DR Congo (2008), Gabon, Uganda, and Zambia (2009), and Tanzania (2010).[72] However, the early focus of Ecobank was expanding in the West African region – a fact derived from its expansion into nearly all West African countries within fifteen years of its incorporation. The bank's expansion pattern (first West Africa, then the continent) influenced the focus of this study. Therefore, the following quantitative and qualitative assessments seek to determine the Ecobank influence in that region.

[72] A full map of Ecobank's expansion (including dates) can be found in Figure 2.

**Figure 2: Ecobank Presence in Africa**[73]

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[73] Ecobank Transnational Inc., *Annual Report*, 2008.

## Current Operations

With an ongoing and sustained streak of revenue growth, Ecobank has been able to expand over a wide swath of the continent. This performance has allowed the bank to make strides to accomplish one half of its dual mission: adding value for its shareholders. This chapter examines how these current day operations fit into Ecobank's mission of helping to encourage intra-regional trade among its member countries.

*The Ecobank Framework*

Large commercial banks have been operating on the African continent for many years. However, due to colonialism these banks such as Barclays and Standard Chartered have all been foreign-owned – French, British, or American interests. Even today, these banks persist as the dominant banking groups in Africa. Amadou Sy (2006) writes that foreign-owned banks that operate in Africa have control of approximately eighty percent of total banking assets.[74] Other examples of foreign-owned banking conglomerates in Africa include: Société Générale, BNP Paribas, Crédit Lyonnais and Citibank.[75] However, despite its relatively late start in the mid-1980s, African-owned Ecobank has been able to gain a strong foothold of market share in the African banking market in a short amount of time. By 2003, Ecobank had claimed nearly 9% of the West African banking market, despite the existence of only thirty Ecobank branches in West Africa at the time.[76] (For comparison, Société Générale held the largest market share at 15 %.)

From its inception, Ecobank and its subsidiaries have been publicly-owned companies listed exclusively on African stock exchanges. The parent company ETI was the first African

[74] Amadou N. R. Sy, "Financial Integration in the West African Economic and Monetary Union" IMF Working Paper, International Monetary Fund, 2006).
[75] Tella and Akinboade, *ECOWAS Monetary Integration: The Imperatives of Financial Market Development*, 75.
[76] Sy, *Financial Integration in the West African Economic and Monetary Union*, 9.

company to be simultaneously listed on three separate stock exchanges (the BRVM regional stock exchange in Abidjan, the Ghanaian stock exchange, and the Nigerian stock exchange.)[77] ETI has no majority shareholder, and is African-operated.

A 2008 report suggests that approximately 33% of the bank's shares are now foreign-owned (including 6% by International Finance Corporation, and 20% by Renaissance Capital).[78] Renaissance Capital investment bank (RenCap) is a private, Russian-based institution that has been aggressively expanding into African investments since 1998. RenCap officials have recently claimed that Ecobank's shares are highly undervalued, representing a profitable investment opportunity.[79] Additionally, RenCap CEO Stephen Jennings stated in 2007 that Africa was one of the few remaining emerging markets that had been bypassed by the investing community.[80] From this evidence it appears that RenCap's move to acquire a significant minority share in Ecobank was done largely in concern for its own profit generation.

Regardless, Ecobank still has no majority shareholder; no single institution or individual possesses full control over the parent company's operations. This non-majority property is inherently significant. The attribute allows the bank executives to operate free of any dominating extra-African interests, therefore allowing the bank to focus more intently on accomplishing its dual mission of profitability and the promotion of regional economic growth.

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[77] Corporate Statement, "Ecobank Delegation Visits AU Chairman," *African Business,* 2007, 59.
[78] Staff writer, "Africa: Global Crisis Hits Ecobank Share Offering," *Oxford Analytica Daily Brief Service* 2008.
[79] "Ecobank Transnational 'Mispriced' - RenCap," *Ghana Business News*, sec. Bloomberg, 2009, http://www.ghanabusinessnews.com/2009/06/09/ecobank-transnational-%e2%80%98mispriced%e2%80%99-rencap/.
[80] Ben Aris, "Russians Move into Africa," *The Banker,* 2007.

*African Investors Investing in Africa*

There is also hesitance from global investors to invest in Africa – a general perception is that African governments are unstable and contracts are not well enforced, thus making investment returns risky and unpredictable.[81] However, by creating an organization which operates almost exclusively on the African continent and that which is staffed exclusively by African citizens,[82] Ecobank may be more tuned in to the African investment climate. In other words, an African-operated and owned bank would be less hesitant to invest in African projects than perhaps an American or European bank. Locally-hired Ecobank employees might better recognize local and cultural subtleties which are often unquantifiable in the investment-decision context. These include consumer preferences, religious traditions and customs, and unwritten codes of conduct. For example, a Senegalese employee of Ecobank Senegal would know that the members of the Laye Islamic brotherhood travel from all over the region each year to congregate in Yoff, Dakar, for an annual pilgrimage. Knowledge of these cultural subtleties might also contribute to Ecobank employees' capacity to form both individual and institutional relationships with clients, depositors and host communities.

Furthermore, the bank frequently uses the rhetoric in its publications to indicate its commitment to the African continent. In his statement in the 2008 annual report, the group CEO Arnold Ekpe claimed that the bank has an "unwavering commitment and belief in the future of Africa".[83] Considering that so much of the sub-region's resources were extracted away from the continent to the benefit of other countries during colonialism, this optimism and devotion to the well-being of the African continent is promising.

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[81] Adewoye, *Constitutionalism and Economic Integration*

[82] According to the career section of the bank's website, it is not Ecobank's practice to sponsor or process work permits for candidates – therefore implying that with few exceptions, only African citizens are hired.

[83] Ecobank Transnational Inc., *Annual Report*, 13.

## Performance of the Bank

*Review of Recent Annual Report Data*

Ecobank's success has been rapid and unprecedented in the African banking world. According to the bank's own publications, the bank was the 56th largest in Africa in 2003, employing 1,600 employees in only sixty branches.[84] Only seven years later, the bank has over 600 branches and employs 11,000 African employees.[85] In that short time, the bank has grown to be the 21st largest bank on the African continent, and the 9th largest in 'middle Africa'.[86] For comparison, as of December, 2008, the largest sub-Saharan African bank (Oceanic Bank) had total equity of around $2.9 billion USD, while Ecobank had total equity of $1.2 billion USD. Also in the 2003-2008 time period (published annual reports are only available from 2004 onwards,) the bank has continued to increased profits and overall asset holdings, while simultaneously seeing improvements in key financial ratios such as return on assets, return on equity, and profit margins.[87]

While the data are limited on pre-2004 performance, it is likely that the bank found mixed results while struggling to establish itself as a major player with little experience in the banking market. However, that has since changed as Ecobank continues to gain more and more momentum in the 21st century.

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[84] Ecobank Publications, *Ecobank: A Unique Achievement in Africa*, 2003
[85] Ecobank Transnational Inc., *Annual Report*, 11.
[86] "Africa's Top 100 Banks," *African Business,* Oct. 2009, .
All of the preceding eight banks are based in Nigeria. Rankings are based on shareholder's equity, not on overall bank assets.
[87] All of the bank's annual reports are audited by a neutral third party accountant, PricewaterhouseCoopers Nigeria.

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Branches | 88 | 109 | 162 | 305 | 450 | 610 |
| Profit After Tax (Millions USD) | 30 | 40 | 51 | 86 | 139 | 111 |

**Figure 3: ETI Branches and Profits**

*The Current Financial Crisis and its Impact on Ecobank*

A recent case-study of any financial institution would be remiss without a discussion of the effects of the 2008-2009 global financial meltdown. As the global economy is still in the midst of deep financial turmoil, it is difficult to assess this impact. However, there are signs that the African banking market and Ecobank were able to insulate themselves against hurtful forces – the foremost explanation for this being that African banks did not heavily invest in complex financial instruments such as collateralized debt obligations (CDOs), credit default swaps (CDSs), and structured investment vehicles (SIVs); instruments which contributed to near-systemic financial collapse in the US and Europe.

However, an area in which the crisis may have affected the banks operations is capital-raising. In 2008, ETI rolled out a scheme to sell nearly $1.5 billion worth of stock – the proceeds from which it planned to use for new acquisitions, technology upgrades, and capturing new markets.[88] However, due to tightening international credit markets and the unwillingness of many companies to invest in riskier markets, Ecobank fell short of its goal and only managed to raise $700 million.[89] Despite the shortfall, this was an ambitious capital-raising effort which resulted in impressive gains from a very reluctant lending community – demonstrating Ecobank's appeal to advisors, despite a very difficult investment climate.

[88] Staff writer, *Africa: Global Crisis Hits Ecobank Share Offering*
[89] Alex Perry, "#6, Africa, Business Destination," *Time Magazine*, 2009, 58.

While Ecobank may have dodged the worst *direct* effects of the financial crisis, the *indirect* effects may be more severe in the long run. The global economic slowdown will likely contribute to a blanket-decrease in demand for imports from African markets, partially suppressing African growth. While Ecobank has continued to expand over this time period and has exhibited large increases in overall revenue, its net profits have decreased over the past two years. A more complete overview of the crisis and its impact on the bank will most likely be included in the 2009 and 2010 Ecobank Annual Reports.

*Discussion of Future Expansion*

With its most recent branch openings in Tanzania, the bank has expanded to thirty African countries and has opened a branch in Paris, France. Rather than moving into South Africa, the largest African economy, Ecobank has instead entered into a partnership with a major South African bank, Nedbank.[90] This strategy move implies that Ecobank sees less of a market niche in the more highly developed South African banking system. All of the top five largest banks on the continent are located in South Africa.[91] Ecobank has expressed no interest in expanding into North African countries such as Libya, Tunisia, or Egypt. In a 2007 interview group CEO Arnold Ekpe claimed that Northern African states were more closely allied to the Middle East and Mediterranean economies, and that Ecobank's principal comparative advantage lies in 'middle' African states.[92]

As of February 2010, the bank indicated that it has nearly completed its geographic expansion. A positive effect of this expansion is the fact that with growing geographical

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[90] Sponsor Wire, "Africa: Nedbank & Ecobank Groups Form Ground-Breaking Alliance," *All Africa.Com*2008, http://allafrica.com/stories/printable/200812110237.html.
[91] *Africa's Top 100 Banks*
[92] Versi, *Ecobank's Arnold Ekpe*, S28.

dominance, the bank has had more ability to actively lobby for the improvement of banking rules and regulations in its member countries.[93] This lobbying power allows Ecobank to more easily acquire already-established banks in member countries, allowing the group to expand. In this scenario, Ecobank acts as a 'pressure group', an organization which attempts to influence policy of public bodies to help accomplish its goals, while never actually attempting to take on the duties of the government itself.[94] Through these pressure groups, the parent company ETI is able to assist its subsidiaries in further expansion and create new venues and markets into which the Ecobank group can expand. While this expanded lobbying power might increase profitability for shareholders, it often means that small local banks are absorbed into the Ecobank network. On the one hand, this might be seen as a measure that decreases the number of banking firms (and therefore overall market competitiveness.) On the other hand, the customers and employees of the acquired banks are frequently retained and thus receive the benefits of membership in the wider Ecobank community. Additionally, if the acquired bank performs well (with the help of the Ecobank support and brand name), it will increase its profits and eventually, pay more taxes to the government. In theory, this ultimately might benefit a range of the population that extends beyond Ecobank shareholders.

Ecobank has also expressed interest in opening a branch in Beijing to further facilitate the fast-growing Chinese investment in Africa. In a May 2009 report, the Group CEO Arnold Ekpe noted that this expansion would allow Chinese investors to have a consolidated banking solution in Africa via Ecobank's network of subsidiaries.[95] Ekpe also expressed the bank's interest in becoming a 'one stop' banking shop for non-African investors, such as those from China.

[93] Games, *Ecobank's Brave Route to the Top in 'Middle Africa'*
[94] Peter Willetts, *Pressure Groups in the Global System : The Transnational Relations of Issue-Oriented Non-Governmental Organizations* (London: F. Pinter, 1982), 225.
[95] Lucky Fiakpa, "A Ride Across the Storm," *Africa News Service,* May 11, 2009.

Earlier in 2009, Ecobank became the first African bank to sign a cooperation agreement with the Bank of China, China's leading international bank.[96] The Chinese influence and investment in Africa is currently expanding at a rapid rate and the results of this relationship are yet to be fully realized.

*Awards*

Over the course of its success as a bank, Ecobank has started to receive recognition as a significant player in the international banking community. Most notably in 2008, Ecobank won the African Banker Awards' "Most Innovative Bank." Both Ecobank and its large minority shareholder, the Renaissance Group, sponsored the annual event. IC Publications, the facilitator of the awards event is responsible for publishing periodicals such as the "New African", "African Business", and "African Business." Judges for the event include prominent businesspeople and researchers located in both Africa and Europe.

This innovativeness award is given to the bank which "has brought the most innovative practices to the industry," including:

a) visible technological advances;

b) reducing transaction costs;

c) reaching out to new markets;

d) creating a business model to increase market penetration.[97]

While the first two criteria might be valuable for any bank, criteria 'c' and 'd' are directly relevant to Ecobank's regional mission. Market penetration is essential for increasing the

[96] Ecobank Transnational Inc., *Press Release: Ecobank, Bank of China Sign Co-Operation Agreement*, January 22, 2009.
[97] IC Publications, "African Banker Awards Criteria," http://www.ic-events.net/awards/africanbanker/02categories.php

number of branches and expanding the customer base, and reaching out to new markets can imply the inclusion of informal economies. That Ecobank was given this award indicates that the bank's model fits *all* of the criteria; attributes which might better allow the bank to increase regional integration among its member countries. These awards may lend some insight into whether or not Ecobank is achieving the second half of its dual mission, *in addition* to performing profitably.

Ecobank also received an International Finance Corporation (IFC)-issued award, the 'Client Leadership Award', for improving access to finance in Africa. The executive vice president of the IFC, Lars Thunell said that, "Ecobank's success illustrates…the benefits of extending financial services to people and places that need them the most."[98] This award shows the link between the bank and its ability to help the West-African community through providing financial services to a wide array of the population. In a Chapter VI, this thesis will examine exactly how the bank uses this innovative business model to further its ambitions of contributing toward regional economic integration.

[98] Lotte Pang, "Ecobank Receives IFC Client Leadership Award for Improving Access to Finance in Africa," *IFC News Press Release*, 2009.

# IV. ECOBANK SENEGAL

While most of the research conducted for this thesis revolves around the Ecobank parent company (ETI), field research was done at the Senegal subsidiary headquarters. A first-hand view of the subsidiary can perhaps provide further insight into the entirety of the Ecobank model, at both the top and subsidiary levels.

As noted in Chapter III, Ecobank Transnational Inc. acts as a "strategic architect" to its subsidiaries, providing support and resources necessary for their growth, profitability, and expansion within their respective national borders. In this case, an interview with the Ecobank Senegal Managing Director shed light on this relationship, as well as the employment structure and other features specific to the Senegal subsidiary.

*Employee Structure*

Managing directors and other high-level executives within the subsidiaries are employees of the parent company. ETI designates them to rotating assignments (from country to country), which last up to five years. Ehouman Kassi, interviewed for this study in August 2009, had previously been stationed in executive positions in both Ghana and Côte d'Ivoire. He noted that all such employees are required to speak both French and English (and Portuguese, if working in an appropriate environment). He claimed that ETI employees "really feel at home, wherever [they] are." He explained that twice per year, the Ecobank Senegal (EBS) employees meet with staff at EBS headquarters in Dakar to ensure that the parent company's mission is being carried out on the ground. For the rest of the year however, it is up to EBS employees to operate the bank as they see fit within the Senegalese business environment.

*Ecobank Senegal Performance*

According to the ETI share offer prospectus, the Senegalese economy has seen a few years of real GDP growth, ranging from 2%-7% annually. The country has a current population of approximately twelve million. EBS expects continued growth rates of around 5% for the next few years. EBS is the fifth largest banking group in Senegal, with a market share of 7.5%. As of 2010, there were 35 EBS branches located around Senegal (Figure 4).[99] These branches are mostly concentrated in metropolitan areas such as Greater Dakar, Thies, and St. Louis. However, the map illustrates that there are increasingly more branches near border areas such as Kedougou in the southeast (near the Mali border) and Ziguinchor and Kolda in the Casamance region (near the Guinea Bissau border.) This shows that EBS is willing to expand into rural areas which border other Ecobank member countries. Much of the cited 'new regionalisms' literature believes that integrating these border areas and their inhabitants are crucial steps in the regional integration process. The map also illustrates Senegal's population density in order to show the relationship between Ecobank locations and population centers. These rural areas are often border areas which provide strategic locations for EBS to provide its customers with Ecobank services throughout the West African region.

[99] There are multiple branches in certain locations indicated on the map. Other significant locations include Touba and Kaolack, pilgrimage sites of two different Islamic brotherhoods. The latter site draws pilgrims from as far as Nigeria and Sudan.

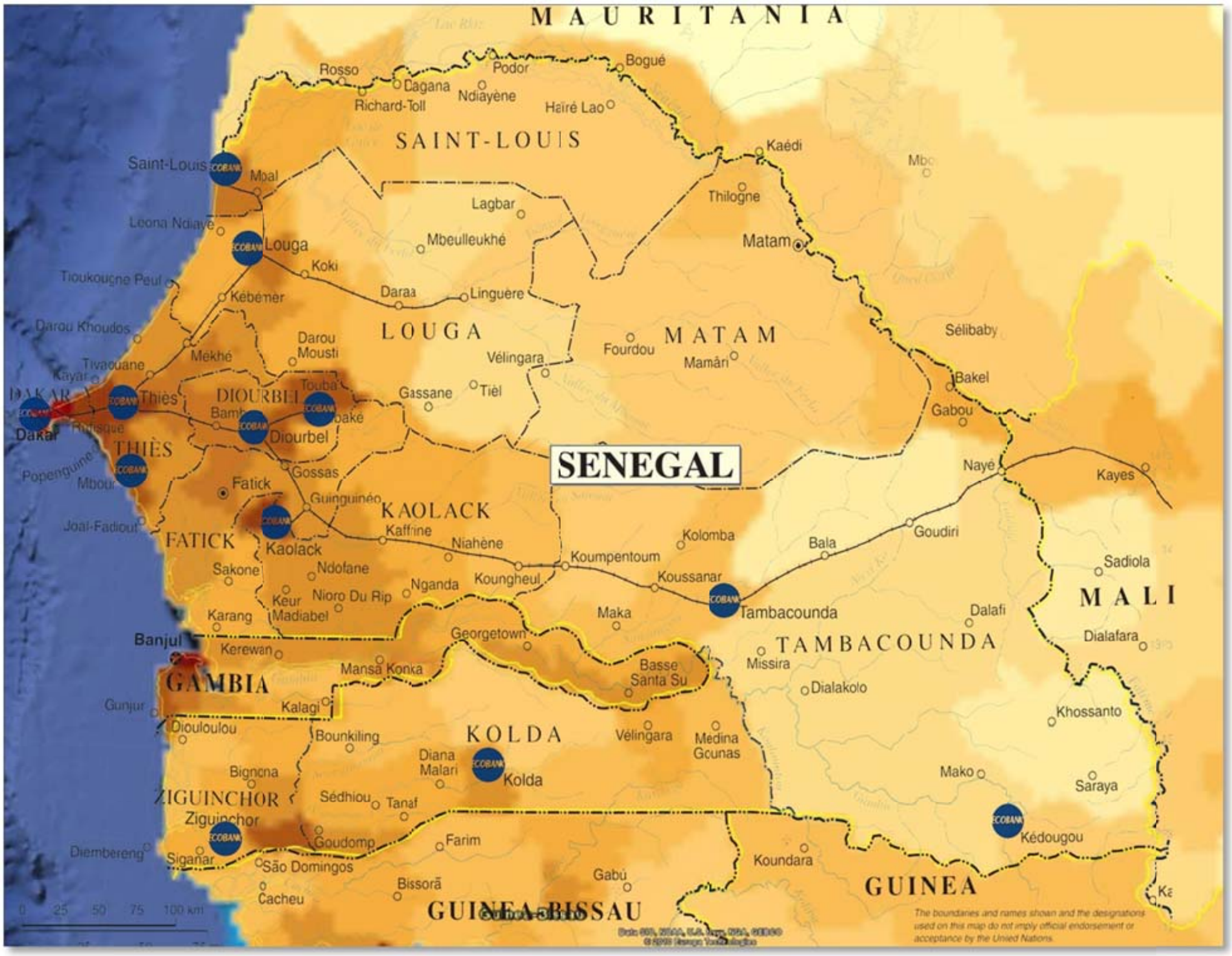



**Figure 4: EBS Branch Locations and Population Density**

Over the past five years, EBS has seen significant growth as an ETI subsidiary. It has seen a 40% increase in total assets, an annual growth rate of 65% (per year) in after-tax profits, and a 32% increase in total deposits (Figure 5).[100] This all comes despite the fact that EBS was only established in 1999. Possible explanations for this success include Senegal's rapid economic growth over this time period, averaging approximately 5.5% per annum.[101] Other explanations for EBS success include continued political stability and relatively reliable

[100] Ecobank Transnational Inc., *Annual Report*
[101] The World Bank Group, *Africa Development Indicators*, 2008.

infrastructure. Also, Senegal might be serving as a more favorable climate for the bank's expansion, as it is a relatively stable, multi-party democracy.

| In Thousands USD | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Profit After Tax** | 1,092 | 2,095 | 2,853 | 4,312 | 8,140 |
| **Total Assets** | 93,484 | 107,938 | 135,792 | 247,848 | 366,515 |
| **Total Deposits** | 73,871 | 86,204 | 118,281 | 189,734 | 228,914 |

**Figure 5: EBS Profits, Assets, and Deposits**[102]

*Ecobank Senegal Strategy*

The bank director also highlighted the subsidiary's strategy and future objectives. He pointed out that until 2002 the EBS mission had focused more on corporate and wholesale banking. From then on however, EBS (along with the parent company) decided to aim more at expanding the retail sector and consumer base. This statement is supported by the subsidiary's annual reports, which show the breakdown of retail vs. corporate and wholesale divisions of Ecobank Senegal (Figure 6).[103] Interestingly, Mr. Kassi estimated that only around 10% of the bank's individual retail customers conduct business regionally. On the other hand, almost all of the Ecobank corporate clients operate regionally, he said. He explained that the motivations behind the strategy shift were to balance the bank's operations and reach a wider range of customers.

A closer look at Ecobank Senegal's structure, performance, branch locations, and strategy provides a more precise example of the Ecobank model. Ecobank's other subsidiaries operate in the same way, whilst tailoring the specifics of their operations to their home countries. Each

[102] Ecobank Transnational Inc., *Annual Report*
[103] Ecobank Senegal, *Annual Report* 2006.

subsidiary provides a portion of the overall profits, and serves out the bank's overall mission on the ground level.

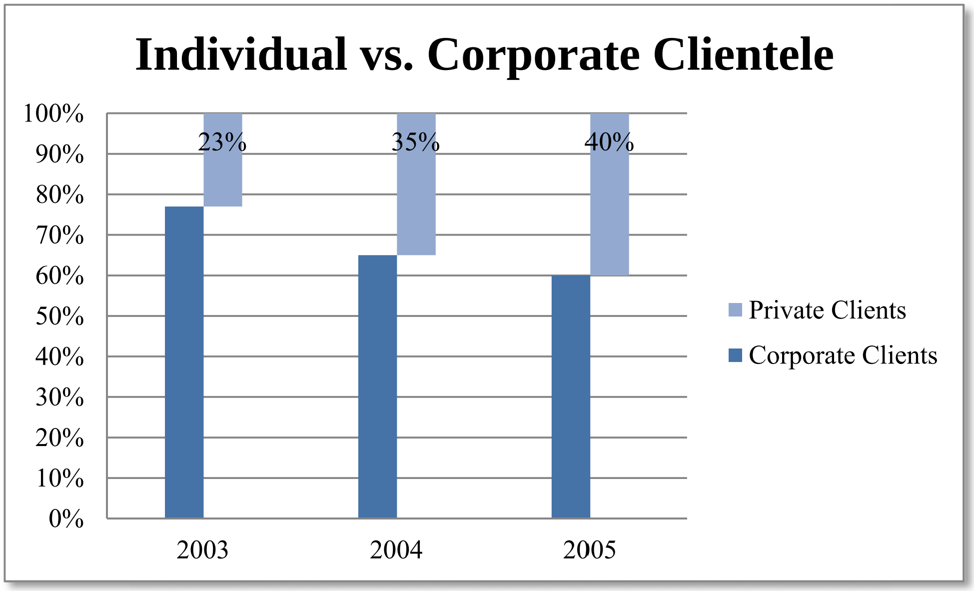



**Figure 6: Corporate vs. Consumer Deposit Structure**

## V. THE IMPACT OF ECOBANK: A DATA ANALYSIS

The information provided thus far has outlined the Ecobank structure and presence in West African intra-regional trade by describing the bank's origins, performance, expansion, and array of banking products. Using directional trade data between West African country pairs, this chapter will attempt to quantify Ecobank's possible impact on intra-West African markets.

For a number of reasons, there is no way to conduct a "clean" analysis, or rather, a randomized control trial to determine what (if any) impact the bank has made. For one, the expansion of the bank is not random – the Ecobank executive bodies select the bank's countries of operation based on strategic importance, profitability concerns, and regulatory issues (just as any private regional institution would). Secondly, a plethora of other events occur concurrently with the bank's expansion, making it difficult to distinguish between the impact of the bank and the impact of other forces.

Despite all of this, it is still possible to gain some understanding of the bank's impact through a data analysis of trade among selected pairs of West African countries. This is accomplished by sampling a variety of West African countries and observing shifts in regional-trade trends.

This chapter will perform *two* data analyses of the direction of trade data:

1) a graphical analysis;

2) a regression analysis using ordinary least squares regressions.

The preliminary graphical analysis is used to roughly illustrate a possible link between Ecobank and intra-regional trade. From these initial graphs, a hypothesis can be generated for use in the subsequent regression analysis.

The regression analysis tests the hypothesis that the presence of Ecobank in a West African country pair leads to an increase in that country pair's trade flows with each other.[104]

## Graphical Analysis

*Methodology*

*The Data*

This analysis makes principal use of the IMF's "Direction of Trade" statistical database. The database provides data on the absolute value (in USD) of annual merchandise exports and imports between each country and all of its trading partners. According to the IMF, the data records bilateral and multilateral trade aggregated at both national and regional levels. The dataset is nearly complete for each West African country going back to 1980. However, for certain periods of civil war in countries like Sierra Leone and Liberia, the data is limited. In some instances where data has not been sufficiently reported, the IMF has used a system of estimations to extrapolate the potential trade figures. Apart from this database, there are little other data which illustrate trade *between* African countries, especially for the pre-1990 period.

*Choice of Sample*

Due to the extensive (and overlapping) nature of the trade data (i.e. Togo's imports and exports with Benin equals Benin's imports and exports with Togo), this data analysis is conducted with a small sample of the West African countries. This study will analyze the

[104] It is important to reiterate that trade among West African countries may not be the only venue in which the bank has had a meaningful impact. In other words, there are unquantifiable impacts (e.g. spillover effects to other sectors) which are impossible to factor into a purely quantitative analysis of trade among countries. Chapter VI attempts to identify the possible effects on the regional integration process by identifying and explaining the bank's networks, model, and services.

regional trade statistics from four different countries: Togo, Mali, Côte d'Ivoire, and Ghana. In order to reduce the possibility of selection bias, the survey attempts to sample countries which exhibit different attributes:

a) Population size – the smallest being Togo, 6 million, and the largest being Côte d'Ivoire, 20 million;

b) Ecobank subsidiary market share[105] – ranging from Ghana 8.5% to Togo 23%;

c) Geographic location within West Africa – Mali (landlocked, Sahelian), Côte d'Ivoire, Togo, and Ghana (coastal);

d) Geographic size – ranging from Togo, 57,000km$^2$ to Mali 1,240,000 km$^2$;

e) Currency -- Côte d'Ivoire, Mali and Togo (CFA franc), Ghana (cedi).

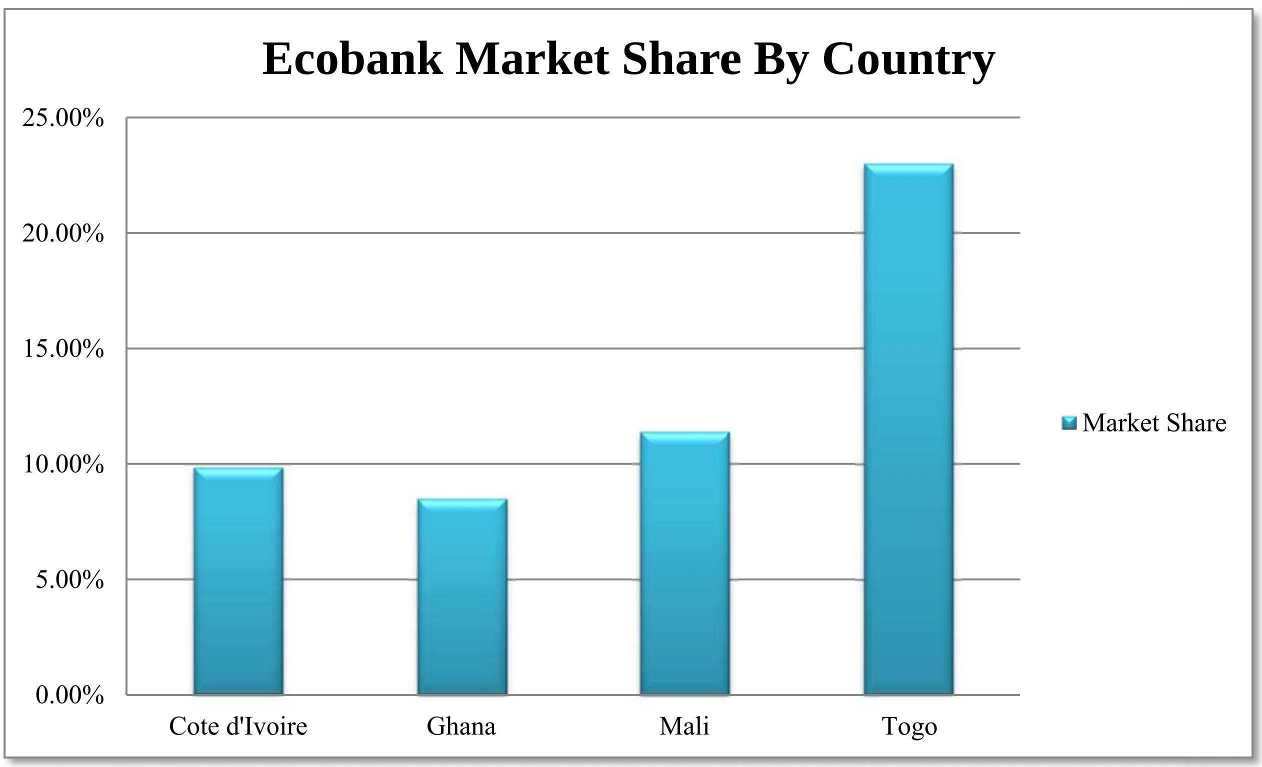



**Figure 7: Ecobank Market Share by Country**

[105] Data on Ecobank market share obtained from Ecobank Share Prospectus as of 2008 (Figure 7)

*Method of Analysis*

Due to Ecobank's country-to-country expansion, it is possible to get a picture of how the bank has potentially impacted trade via a "before/after" graphical analysis. By comparing the trends in trade among a pair of West African countries both before and after Ecobank has established a presence in both countries, one can see if the bank has potentially impacted the trade trajectory of a specific intra-West African country pair.[106] The example of trade between Mali and Senegal illustrates this method.

The countries are neighbors – Mali to the east of Senegal. Figure 8 represents the trade between the two countries between 1980 and 2008.[107] From 1980 to 1998, Ecobank is not present in either country. Starting in 1998, Ecobank expands to Mali. Finally, in 1999, Ecobank moves into Senegal. To illustrate the trade trends before and after the establishment of the bank, the graph is divided up into intra-Senegal/Mali trade over the periods of 1980 through 2000 and 2001 through 2008. The solid blue line represents when Ecobank was *not* present in both countries, and the dotted red line represents when it *was* present.

[106] Because each Ecobank country subsidiary expands slowly within its state's borders over time, there are varying magnitudes of Ecobank presence in a given country. For example, Ecobank Mali commenced operations in 1998. By 2010, the subsidiary was operating forty-one branches. However, it is unlikely that the subsidiary was strong enough to impact change in its nascent years. Therefore, this analysis anticipates no Ecobank impact until *at least* two years after the original introduction of an Ecobank subsidiary in a given country (if at all).

[107] All trade data obtained from IMF Direction of Trade Statistics Database, 2010.

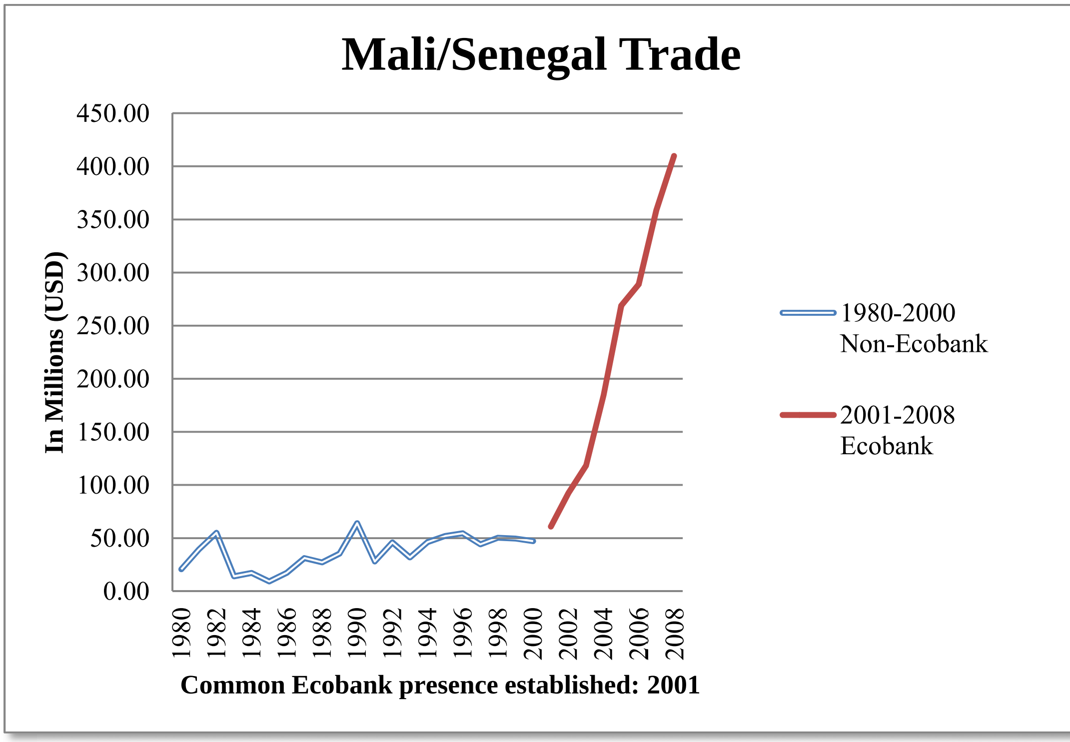



**Figure 8: Senegal - Mali Trade, 1980-2008**

By adding trend lines to each of these data sets, we can determine whether or not there is a significant break in the trend, and therefore, a possible effect of Ecobank presence in each country.[108] In this example, there is a clear break in the trend. Other trend-breaks found in the data were not so visible and sudden. Due to the varying nature of the speed in which Ecobank gains influence in a given country, these trend shifts can be abrupt or gradual, but they do seem to frequently coincide with the expansion of Ecobank (as detailed in the results section.)

[108] Not all trend breaks are as visible and striking. However, by replicating this analysis with other trading partners, a conclusion can be made about the effects of Ecobank.

*Results of the Graphical Analysis*

*Mali*

Ecobank Mali was established in 1998. The graphical data show a moderate link between Ecobank presence and an increase in Mali's trade with other West African countries after 2000. After Ecobank presence was established in both countries of a pair, Mali generally, although not uniformly saw a significant trend shift in trade with Benin, Burkina Faso, Guinea, Niger, Senegal and Togo. The shift was most prevalent with Senegal, Togo (Figure 9) and Benin (Figure 10). All of the countries which saw a shift in trade are French-speaking countries – perhaps a factor which better facilitated intra-West African trade among those countries once Ecobank had been installed.

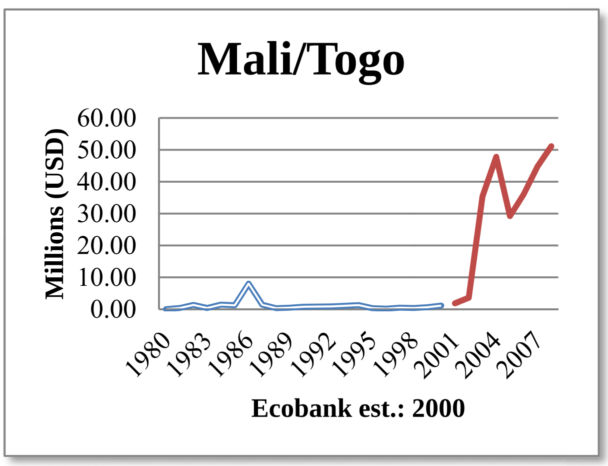



*Figure 9: Mali - Togo Trade, 1980-2008*

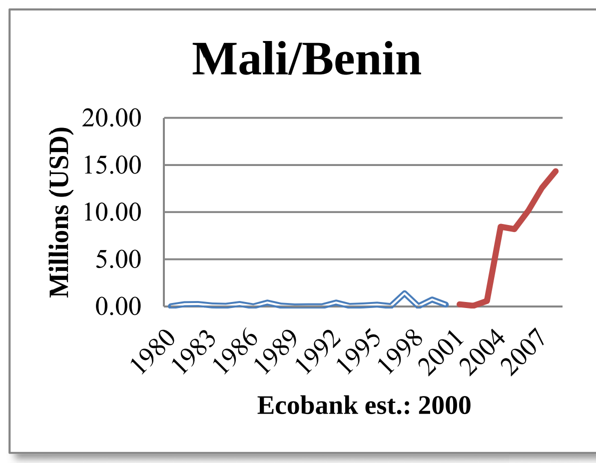
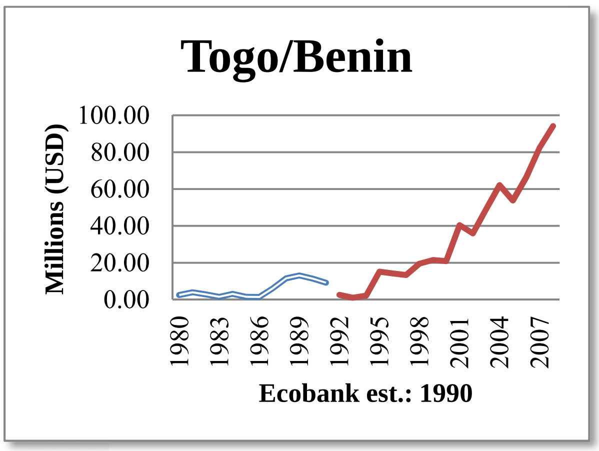



*Figure 10: Mali - Benin Trade, 1980-2008*

Mali country pairs which did not exhibit a trend shift include Gambia, where Ecobank Gambia was not established until 2007, and Mali-Nigeria. The lack in trend shift for Mali-Nigeria trade might be due to uncommon currencies, language barriers, or the large geographic distance between the two economies.

*Togo*

Ecobank Togo (EBT) was established in 1988 as the first Ecobank subsidiary. EBT seems to have helped trade between Togo and other West African countries, most notably Burkina Faso and Benin (Figures 11 & 12); Togo's neighbors. Senegal, Mali, and Niger are also among the countries which saw trend shifts. Once again we see that these countries are predominantly French-speaking members of the CFA franc zone and use a common currency. However, there was no visible trend shift between Togo and Côte d'Ivoire (1990), despite the common currency and close geographic proximity.



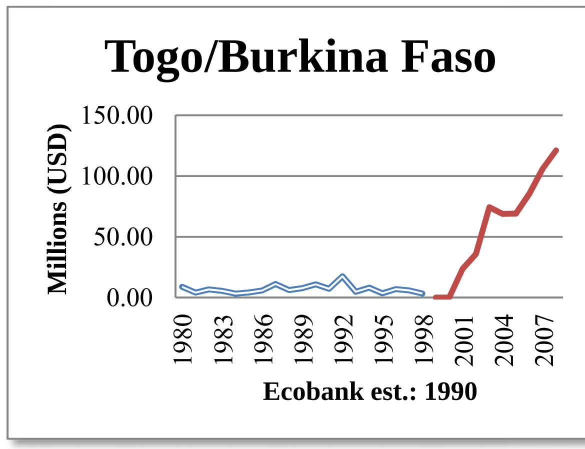




***Figure 11: Togo - Benin Trade, 1980-2008***

***Figure 12: Togo - Burkina Faso Trade, 1980-2008***

*Côte d'Ivoire*

Ecobank Ivoire (EBI) was established in 1989 and in this study, represents the strongest graphical correlation between Ecobank presence and an increase in regional trade. Trade between Côte d'Ivoire and Benin (Figure 13), Burkina Faso, Liberia, Senegal, Nigeria, Ghana (Figure 14), Guinea, and Togo all increased significantly after 1992, when Ecobank was established in Côte d'Ivoire. This occurred despite common and un-common currencies, short and long geographic distances, and political stability or instability.  On the corollary, trade did not show a marked increase in Guinea Bissau, Guinea, and Niger.

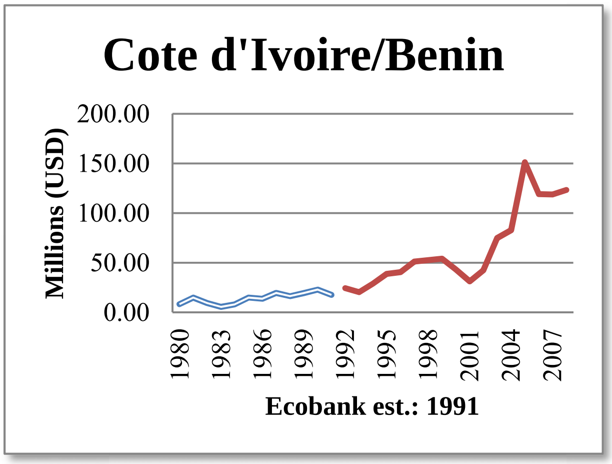



*Figure 13: Côte d'Ivoire - Benin Trade 1990-2008*

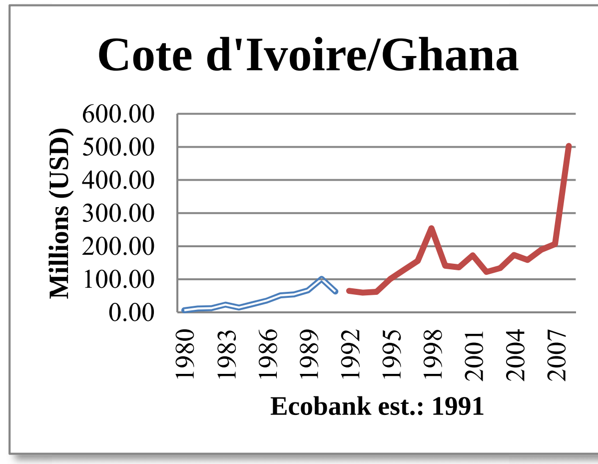
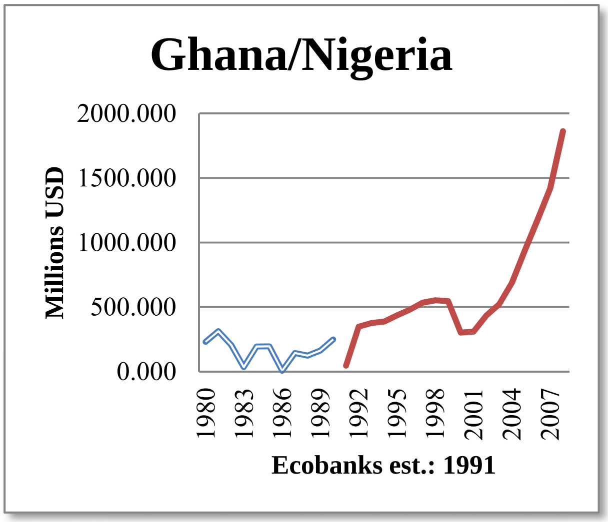



*Figure 14: Côte d'Ivoire - Ghana Trade 1980-2008*

*Ghana*

Ecobank Ghana was established in 1990.  Ghana has recently gained positive attention for its peaceful elections in 2008, and its subsequent, highly publicized visit from US President Barack Obama.  From the graphs it appears that the long-standing presence of Ecobank correlates highly with increases in trade with other ECOWAS countries, most notably with Nigeria, Côte d'Ivoire (Figure 15), and Burkina Faso (Figure 16).  These results seem to coincide with the other sample countries, in which countries tend to exhibit higher levels of trade with their neighbors.



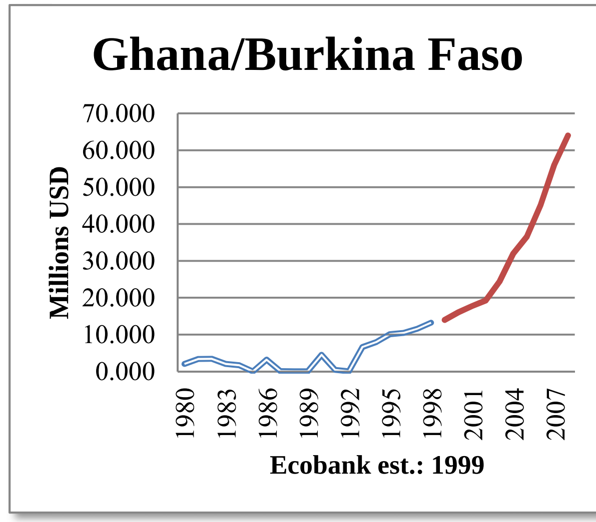




***Figure 15: Ghana - Nigeria Trade 1990-2008***

***Figure 16: Ghana - Burkina Faso Trade 1990-2008***

*Notes to Results*

*Timing and Correlation vs. Causality*

Due to the bias of the sample, it is difficult to determine whether or not Ecobank expansion actually caused the shift in trends or whether the increase in intra-regional trade contributed to the bank's performance (endogeneity). However, it appears as though in most cases, it is the bank which expanded *first,* and the increase in trade among the country pair was second. Barring influence from an external source, this would indicate that in most cases, the presence of Ecobank in two countries in a pair led to increased trade among that pair.

*Informal Trade*

Informal trade accounts for a large portion of all cross-border trade in West Africa. For this reason, it is often difficult to determine how much trade is occurring from country to country. It is especially relevant to West African countries that a high level of cross-border trade (and trade in general) is not recorded by authorities. This contributes to a continually low level of tax revenue collection (unrecorded revenue is inherently un-taxable) in these countries, among other things. For the purposes of this analysis, it was only possible to use data from recorded transactions, via the IMF database. In order to conduct the analysis, this research assumes that informal trade as a percentage of total trade has remained constant over this time period. This paper further assumes that Ecobank, as a bank which was providing services mainly to larger businesses (up until 2000), would have a bigger impact on recorded formal (*recorded)* trade, rather than informal trade. This assumption is based on the fact that businesses and individuals with bank accounts would be more likely to record transactions.

*Summary of Results*

In the majority of instances, the establishment of Ecobank presence in a country pair graphically correlates with a marked increase in that country pair's trade. This result often comes in a range of circumstances, despite differences in currencies, languages, and geographic distances between pairs. In some cases however, these factors do appear to have an impact on the intensity and timing of the trend shift. The results from these four countries illustrate a three factors which seem to be impacting intra-regional trade, in addition to Ecobank presence:

1) common currencies;
2) common official languages;
3) geographic proximity.

These factors will be factored into hypothesis for the regression model in the following section.

## Regression Analysis

*Methodology*

This directional trade data regression analysis attempts to gain a more quantitative view of Ecobank's impact. The analysis samples the previously-used four West African countries and each of their trading partners over the period of 1980-2008. The analysis uses over 1600 observations, which are compiled by aggregating the data of each trading pair over the twenty nine year sample period.[109]

Based on the preliminary graphical analysis, this regression analysis hypothesizes that Ecobank presence in a pair of countries will contribute trade among the economies in that pair. Additionally, this model expects that a common currency, a common language, geographical distance between countries, and the size of the trading partner's economy[110] will be significant factors.

In addition to Ecobank presence in both countries of a pair, a number of independent variables are used to account for simultaneous factors and possibly determine effects of these factors. For this regression, the dependent variable "trade" is trade among two countries in a given West African country pair.[111] It includes both imports and exports for the pair. The independent determinant variables are:

1) "EB" indicates Ecobank presence in *both* countries of a country pair;
2) "GDP_PART" is the GDP of a given country's trading partner;
3) "LANG" indicates whether countries share a common official language;
4) "CURR" indicates if both countries share a common currency;

[109] 4 countries, 14 trading pairs each, multiplied by 29 years each = 1624
[110] The gravity model suggests that trade flows are based on economy sizes. For example, Ghana would be expected to trade more with Nigeria, a large African economy, than it would with Gambia, a much smaller economy. Therefore, the GDP of the partner country has been added to the model to control for this effect.
[111] This data was also obtained from the IMF direction of trade database.

5) “DIST” is the value of the distance in miles between countries in a pair.[112] Additionally, “const” is a numerical constant and “ε” is a standard error term. The method used incorporates these variables and follows a simple regression equation:

$$trade = \beta_0 const + \beta_1 EB + \beta_2 GDP\_PART + \beta_3 LANG + \beta_4 CURR + \beta_5 DIST + \epsilon$$

*Results of Regression Analysis*

This study finds a positive, statistically significant correlation (at the 1% level) between the presence of Ecobank in a country pair and an increase in trade among the two economies in that country pair. A full summary of these results are found in Table 1. The numbers in the table represent the coefficients of each of the independent variables. Additionally, this analysis also finds that the GDP of a given country’s trading partner is statistically significant in determining trade among a given country pair. There is also a significant correlation between trade and the existence of a common official language between the country pair.

This model also finds common currencies to be statistically significant. These results are in agreement with Carrère (2004), which claims that common currencies within the UMOEA bloc significantly contribute to intra-regional trade.[113] Finally, despite its small coefficient, distance between countries does appear to be statistically significant when computing intra-regional trade data.

This analysis was conducted on a large sample of observations (over 1600), and encompasses a substantial amount of intra-West African trade data. Future studies could build on this initial attempt at an Ecobank impact analysis. Those studies could include more country data and not just West African trade, but intra-African trade as a whole. Additionally, more

[112] Distances were measured from the geographic center of one country to the geographic center of its trading partner.
[113] Carrère, *African Regional Agreements: Impact on Trade with Or without Currency Unions*, 235.

variables could be added to the model to control for other factors such as political stability, trade openness, and principle imports and exports.

Table 1—African Country Pair Trade and Various Trade Factors: 1980-2008

| Independent Variable | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| *const* | .2560** (.0326) | -1.9877** (.1564) | -2.3067** (0.1525) | -1.779** (.1730) |
| EB | 1.0385** (.06137) | .6436** (0.0637) | .5819** (.0615) | .4994** (.0622) |
| LOG_GDP_PART | | .7285** (.0498) | .7504** (.0482) | .7108** (.0481) |
| LANG | | | .1303* (.0629) | .1652** (.0625) |
| CURR | | | .5287** (.0651) | .4931** (.0646) |
| DIST | | | | -.0006** (.0001) |

(standard errors in parentheses)

Dependent variable: trade – Log of value of trade among West African Country pairs
Observations: 1624
** significant at 0.01 level
*const* = constant term, EB = Ecobank present in both countries, LOG_GDP_PART = log (GDP of trading partner), LANG = Country pair shares common language, CURR = Country pair shares common currency, DIST = Distance between trading pair

# VI. ETI: FOSTERING REGIONAL INTEGRATION?

Chapter V conveys (via quantitative methods) the potential effects of Ecobank's operations on intra-West African trade. For the countries pairs included in the sample, the presence of Ecobank showed a statistically significant, positive correlation with trade among country pairs in the West African region. However, illustrating changes in trends in intra-regional trade only demonstrates the end-results to which Ecobank might be contributing, rather than the specific means by which the bank facilitates these results. Thus, a qualitative analysis is necessary to determine the specific mechanisms by which the bank might be a significant actor in the regional integration process. This chapter will detail these specific mechanisms and their potential effects. It will also discuss how the bank's role as a financial institution might allow it to promote further growth within the ECOWAS region in the coming years.

As cited in the literature review, financial sector development can contribute to economic growth by providing a number of different functions, including evaluating savings and investment projects, facilitating transactions, and managing risk. Other purported benefits of financial sector development are derived from the sector's ability to help advance technological change, efficiently allocate capital, and allow people to invest in skills and education. World Bank surveys conducted between 2003 and 2008 show that a significant percentage (40-80%) of West African businesses consider lack of financing to be a major impediment to business expansion.[114] Financial intermediaries' capacity to fill this gap gives them the opportunity to support businesses and essentially, become a lubricant for economic growth. In other words, only banks can provide the supportive funds with which an economy can benefit from positive elements such as a strong labor force, advanced technology, and abundant natural resources.

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[114] The World Bank Group, *Africa Development Indicators*.

However, while the mechanisms by which banks help an economy may be beneficial to a country's national economy, they are not inherently linked to the regional integration process. Thus, in order to be a factor in the promotion of regional integration, Ecobank must be providing additional services and forging institutional relationships which promote not only economic growth, but cross-border intra-West African trade.[115] This chapter identifies these mechanisms to help explain the earlier quantitative results.

These additional services and relationships would be of great interest to intergovernmental organizations such as ECOWAS which are hoping to promote intra-regional trade. Aspects of new regionalism theory can help to identify these mechanisms and to explain why they may be helpful in promoting integration.

## Networks

A key component of new regionalism theory examines the role that networks play in the regional integration process. For the purposes of this study, networks are defined simply as a collection of relationships, roles, and interactions among institutions.[116] Regionalization, in addition to being seen as a formal state-led counter-force against globalization, can *also* reflect a "grassroots amalgam of trans-border activities through networks."[117] Morten Bøås et al (1999) go even further and claim that these formal and informal networks should constitute the "starting point" for formal regionalization.[118] However, these networks (specifically the informal ones) can sometimes impede the formal regional integration process.[119] For example, illicit cross-

[115] Examples of these services and relationships are detailed in the following sections.
[116] Networks can also refer to interactions among individuals or other units of analysis. These networks can be formal or informal.
[117] Marchand, Bøås and Shaw, *The Political Economy of New Regionalisms*, 900.
[118] Morten Bøås, Marianne Marchand and Timothy M. Shaw, "The Weave-World: Regionalisms in the South in the New Millennium," *Third World Quarterly* 20, no. 5 (1999), 1066.
[119] Lee, *The Political Economy of Regionalism in Southern Africa*, 39.

border trading is often blamed for many of West Africa's drug trafficking problems. Unfortunately for many citizens of West African border areas, these trans-national trading networks (both legal and illegal) are the only means of economic survival.[120] In the knowledge that networks can be a potential driver of regional integration, it is important to examine these networks, how they operate, and how they might be deciphered and used to promote positive economic growth.

### *The Ecobank Internal Network*

Ecobank Transnational, as a large, multinational private institution is comprised of numerous relationships and partnerships encompassed under the Ecobank umbrella. In fact, the Ecobank group might appropriately be called "the Ecobank network." After all, the parent company, Ecobank Transnational, operates separately from its national subsidiaries while still maintaining a majority ownership in all of them (Figure 17).[121] An understanding of the bank's organizational structure is crucial to understanding its success, operations, and future potential on the African continent. According to the company's 2008 stock offer prospectus, the parent company acts as a "strategic architect" with appropriate involvement at the subsidiary level. The parent company provides a number of services to its subsidiaries, namely

1) operational manuals and documentation for banking services;
2) reviews and audits of operating units;
3) human resources recruiting for executive positions;
4) advertising and marketing;
5) strategic direction;

[120] Ibid., 37
[121] Ecobank Transnational Inc., *Share Offer Prospectus*, 65.

6) technological services;

7) risk management;

8) management information systems.[122]

| Subsidiaries | Operations Commencement Date | Equity Held by ETI (%) |
|---|---|---|
| Ecobank Benin | 1990 | 78 |
| Ecobank Burkina | 1997 | 82 |
| Ecobank Cape Verde | 2004 | 98 |
| Ecobank Côte d'Ivoire | 1989 | 94 |
| Ecobank Gambia | 2007 | 100 |
| Ecobank Ghana | 1990 | 87 |
| Ecobank Guinea | 1999 | 83 |
| Ecobank Guinea Bissau | 2007 | 100 |
| Ecobank Liberia | 2000 | 100 |
| Ecobank Mali | 1998 | 92 |
| Ecobank Niger | 1999 | 100 |
| Ecobank Nigeria | 1989 | 71 |
| Ecobank Senegal | 1999 | 80 |
| Ecobank Sierra Leone | 2006 | 100 |
| Ecobank Togo | 1988 | 81 |

**Figure 17: ETI Ownership of Subsidiaries**

As a result of the company layout, "operational decision-making is decentralized and maintained at a level as close as possible to required action and the customers."[123] The relationship between the parent and the subsidiaries is a key focus here – and perhaps a most valuable model for intergovernmental organizations. The Ecobank model has a 'sovereign' decision maker at the top – the parent company. However, the underlying network of subsidiaries fosters loyalties and identities within each member state. The relationship between

[122] Ibid.
[123] Ibid.

the two dynamics might allow Ecobank to fuse connections between customers and networks across these national identities. The bank claims to maintain this relationship among the group and its subsidiaries via a high level of communication between parent executives and subsidiary executives.

Understandably, many of Ecobank's large competitors also operate through networks of subsidiaries. Through their subsidiaries, these largest banks often dominate the banking sector of each West African country.[124] In contrast, Ecobank operates exclusively in Africa and is therefore able to specialize within each African sub-region. Applying the regional aspect of ETI's mission to its organizational structure, the bank is compartmentalized by African geographical orientation (Figure 18).[125] This continental geographic focus contributes to ETI's ability to tailor its business plans to each individual economy, respecting the vast array of intricacies present in each African country. 'New regionalisms' scholars contend that for regionalization to succeed there must be a high level of customization within the region and a deep appreciation for each country's individual needs.[126]

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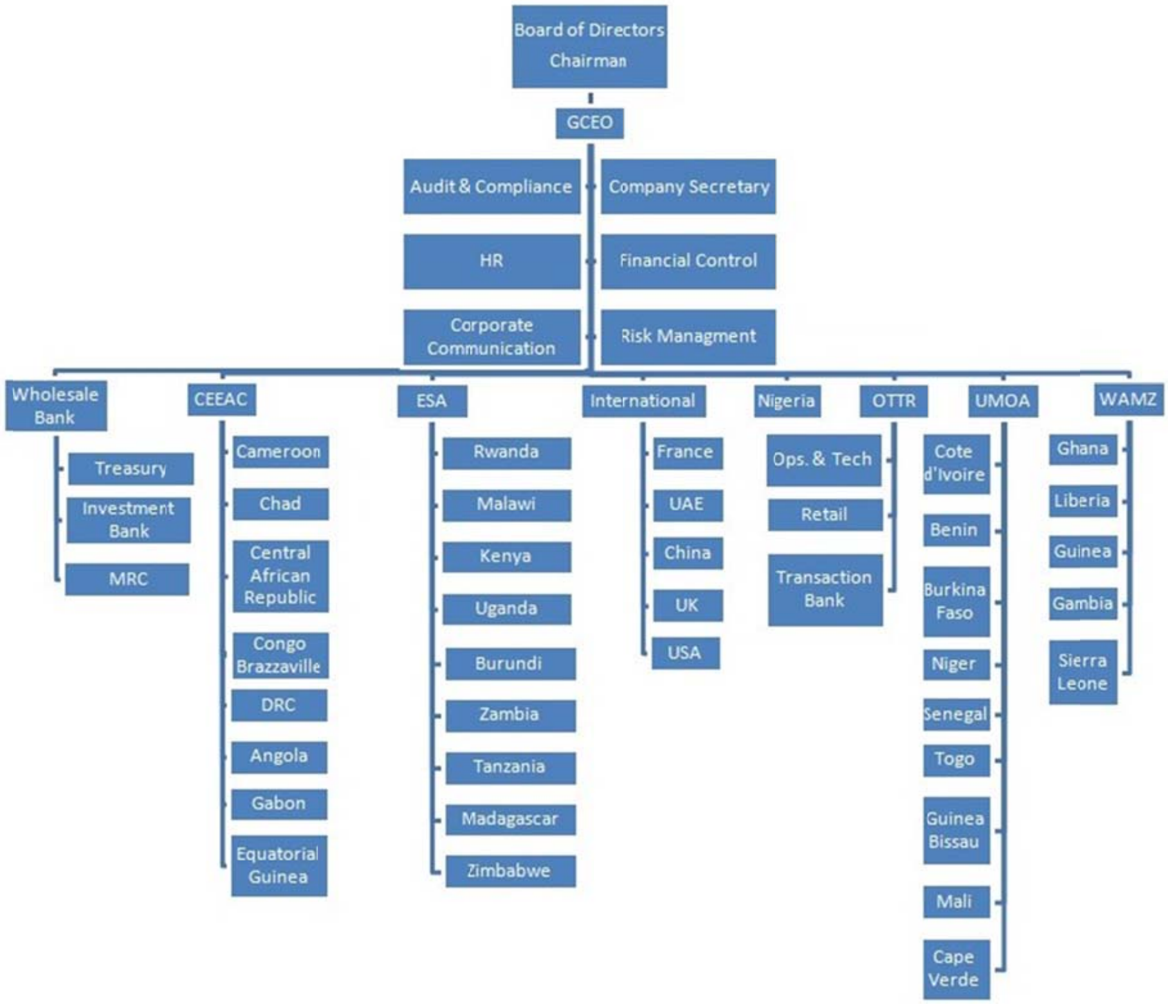
[124] Sy, *Financial Integration in the West African Economic and Monetary Union*, 8.
[125] Ecobank Transnational Inc., *Share Offer Prospectus*, 30.
[126] Shaw, *New Regionalisms in Africa in the New Millennium: Comparative Perspectives on Renaissance, Realisms and/or Regressions*, 179.
Lavergne, *Regional Integration and Cooperation in West Africa: A Multidimensional Approach*, 7.




**ture**

*External Partnerships*

The bank also focuses a large amount of attention on its networks *outside* the Ecobank umbrella, such as those with international financial institutions (IFIs), government-run banks, and other private companies. These partnerships, while arguably not vital to the continued profitability of the firm, may contribute both directly and indirectly to the bank's ability to promote regional integration. The partnerships exemplify the bank's efforts to expand outside of the banking sector and its efforts to use the expertise and specialization of companies and firms in the microfinance sector, travel industry, international financial institutions, and government-sponsored aid agencies.

*Amadeus CWA*

One partnership that is perhaps directly relevant to regional integration is Ecobank's venture with the West Africa subsidiary of Amadeus, a leading technology partner for the African travel industry. In signing the partnership agreement, both parties hope to facilitate West African tourism for current citizens of the region, who would be using the services of the travel agents assisted by Amadeus technology solutions.[127] Amadeus will be able to set up Ecobank accounts for its customers and allow them to make payments while abroad. According to Ecobank's Executive Director of Retail, Technology, and Operations, this partnership demonstrates the group's commitment to "taking banking to the people."[128] This relationship illustrates how Ecobank continues to expand its market to a wider range of regional customers, helping to foster integration in West Africa.

*International Finance Corporation*

The International Finance Corporation (IFC) was created by the World Bank in 1956 to help foster private sector investment in developing countries. IFC therefore has a strong presence in sub-Saharan Africa (SSA) where it continues to expand its development projects. IFC also helps gather funding for West African development projects. For example, in 2007, IFC became the first non-resident institution to issue CFA-denominated bonds in the West African Economic and Monetary Union (WAEMU) countries, via six local African banks

[127] Bright Ewulu, "Ecobank Extends E-Banking Coverage," *Africa News Service,* 2007.
[128] Ibid.

(including Ecobank.) The bonds were initially issued at a 4.75% coupon rate, with all of the proceeds from the sales to be reinvested in the CFA countries for their benefit.[129]

Less than a year later, IFC and Ecobank established a formal partnership. In a 2008 statement at the signing of the partnership agreement, IFC West Africa Director Yolande Duhem said that working with Ecobank's "extensive network would enable [IFC] to have a greater development impact in the region."[130] IFC also claims that they have supported improvements in Ecobank's governance structure.[131]

Since 2008, Ecobank has also become a member of IFC's Global Trade Finance Program (GTFP). According to IFC's program brochure, the GTFP intends to reduce risk by creating partnerships among the program's 250+ member banks. For instance, if Ecobank needs financing for a trade project, they can find a lender with which to partner that is also in the GTFP network. If the deal is completed, it will be guaranteed (fee-free) by the IFC, thus minimizing risk for all parties at no extra cost. Combining the theoretical framework of new regionalisms and financial sector development, this institutional network enables Ecobank to mitigate risk and extend further loans to customers, thus allowing the bank to better fulfill its role as a financial institution. King and Levine (1993) reinforce this by noting that non-central banks (such as Ecobank) are "more likely to offer better risk management and investment information services than central banks."[132]

IFC claims that this relationship will allow banks like Ecobank to "confidently gain familiarity in new markets and build relationships with quality banks around the world." The partnership between Ecobank and the GTFP increased the program's coverage in Africa by 25%,

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[129] "IFC Issues CFA Franc Bond," *African Business* 328 (2007), 8.
[130] Ecobank Transnational Inc., *Press Release: Ecobank and IFC to Strengthen Africa's Financial Sector and Increase Loans to Smaller Businesses* (Accra, Ghana: , 2008)
[131] Pang, *Ecobank Receives IFC Client Leadership Award for Improving Access to Finance in Africa*
[132] King and Levine, *Finance and Growth: Schumpeter might be Right*, 718.

and the program going forward will be able to support West African trade transactions for the first time.[133] Ecobank membership in this program also highlights the group's ease of access to international financial institutions (the IMF and the World Bank), as mentioned in Ezenwe (1983).[134] In this instance, this access to IFIs allows Ecobank to more efficiently allocate resources as a financial institution and work further towards its dual mission.

Even more recently, IFC announced that it would be purchasing $100 million in equity of ETI shares, making it one of the largest shareholders in the company. Ecobank CEO Arnold Ekpe cited this new investment as a sign of a high level of international confidence in the bank.[135] While there is still no majority shareholder of ETI, it remains to be seen how recent stock purchases will influence the operations of the bank (if at all.)

The Ecobank/IFC relationship has clearly strengthened the bank's performance via loan risk reduction and capital-raising. But what does the partnership mean for regional integration? Although IFC's principle goals are to promote open and competitive markets, support private sector development, and help generate jobs, the group still emphasizes the need for expanding regional markets, specifically in sub-Saharan Africa (SSA). This is reflected in a number of IFC publications and statements by the IFC SSA Director, Thierry Tanoh, who stated that IFC has a "commitment for broader and deeper regional capital markets."[136] As indicated in their rhetoric, both Ecobank and IFC are interested in promoting wider regional markets. Therefore, their institutional relationship is mutually beneficial: Ecobank receives capital support and loan guarantees; IFC has the potential to earn returns on an investment in a regionally-oriented enterprise.

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[133] "IFC Continues to Expand Trade Finance Program," *Trade Finance*, 2008.
[134] Ezenwe, *ECOWAS and the Economic Integration of West Africa*, 210.
[135] Ecobank Transnational Inc., *Press Release: ETI Gets US$100 Million Equity Investment from IFC*, 2009)
[136] Cynthia Case, *IFC Issues West African CFA Bond, Supporting Regional Integration and Capital Markets Development*, 2006)

*Western Union*

It is widely accepted that internationally-based workers' remittances back to their home countries are a major source of income for many Africans residing on the continent. In recent years, West African countries have received up to $10 billion USD annually in the form of remittances.[137] Consequently, workers need a means by which to transfer these funds: wire or electronic transfer. Western Union provides money transfer services at a nominal fee, priding itself on the company's ability to electronically send money quickly and securely nearly anywhere in the world at a moment's notice. It is no surprise then that Ecobank, which expresses a desire to improve its technological prowess, would partner with Western Union. Western Union's managing director noted that ETI's high level of technology and effective telecommunications system makes it an ideal platform for Western Union's services.[138] Since 1995, Ecobank customers have been able to access Western Union services at their local Ecobank branches, allowing them to receive and send funds abroad. From a profitability standpoint, Ecobank cites this partnership as a reason for an increase in the group's fee-based, non-interest income (Western Union services are fee-based.)[139] While a large portion of workers' remittances are sent from outside of West Africa, this partnership still increases the ease of monetary transfers among ECOWAS countries. Rather than facilitating trade among businesses, this service would be more applicable to the individual, non-business Ecobank customers.

[137] International Fund for Agricultural Development, "Africa Remittances Report," http://www.ifad.org/remittances/maps/africa.htm
[138] Staff writer, "Ecobank and Western Union Enhance Partnership," *Africa News Service,* 2007.
[139] Ecobank Transnational Inc., *Share Offer Prospectus*, 167.

This partnership could potentially have an indirect impact on integration within West Africa. Ecobank cannot force West African citizens to conduct transactions or transfer money across borders, but it can provide the services by which they can do so. Facilitating transactions is one mechanism by which financial intermediaries can contribute to economic growth in a given economy.[140] Thus, by increasing the ease of money transfer (and reducing the cost), Ecobank might be able to facilitate transfer of payments from workers based around the West African region.

*United States Agency for Investment and Development (USAID)*

USAID is an independent federal government agency that extends aid assistance to developing countries. Over recent years, USAID and Ecobank have worked together to provide financing for infrastructure and other types of large-scale projects in West African countries including Benin, Senegal, Ghana, and Guinea. USAID has helped to guarantee a number of Ecobank's investments, including a $600,000 loan to Safebond Africa Ltd., a port services company based in Accra.[141] Since the initial loan, the company has been able to establish a strong credit history and secure further loans from Ecobank. USAID has extended similar guarantees on other Ecobank loans. The USAID network is another means by which Ecobank can increase its market penetration into both small and medium-sized enterprises in the West African regional economy, and promote industries like port-services that may support regional business operations.

Another result of the partnership between the two organizations is the African Diaspora Marketplace (ADM), an entrepreneurship program intended to encourage U.S. based African

[140] King and Levine, *Finance and Growth: Schumpeter might be Right*, 717.
[141] Nancy Leahy, "U.S. Loan Guarantee Helps Ghana Port Company Acquire Forklifts," *FrontLines,* 2009.

diaspora members to invest in business ventures in sub-Saharan Africa. Each year, between ten and twenty entrepreneurs are selected and each receives a grant of $50,000 to $100,000. The projects are geared toward a range of business projects, from agricultural to IT service ventures.[142] Co-sponsorship of this program demonstrates Ecobank's interest in innovative economic development solutions for the West African sub-region.

The Ecobank/USAID relationship might indirectly contribute to regional integration through the businesses that are enabled to borrow capital. It is also significant that USAID's projects are implemented with the organization's mission: "the twofold purpose of furthering America's foreign policy interests in expanding democracy and free markets."[143] With this caveat, it is difficult to directly pin the USAID relationship to Ecobank's ability to foster intra-West African trade. However, it does appear that whatever the motives, USAID is contributing to Ecobank's ability to finance trade projects through explicit loan guarantees.

*ECOWAS Bank for Investment and Development*

The ECOWAS Bank for Investment and Development (EBID) was established in 1999 with the principal mission to finance development in the West African sub-region and contribute to the realization of ECOWAS objectives by supporting regional integration projects.[144] The bank has two subsidiaries: the Regional Development Fund (public sector), and the Regional Investment Bank (private sector.) The bank manages assets of US $200 million and a staff of 112, making it a relatively small financial institution. The bank's plan for the upcoming years is mainly focused on infrastructure projects, such as a West African railway interconnection

[142] *Press Release: African Diaspora Marketplace Announces 60 Finalists*, 2009)
[143] US Agency for Investment and Development, "About USAID," http://www.usaid.gov/about_usaid/
[144] ECOWAS Bank for Investment and Development, *EBID Strategic Plan 2007-2011*,[2007].

program and a regional air transport company. The bank also hopes to support the rehabilitation of ports to facilitate the development of maritime traffic.[145]

Ecobank has greatly contributed to the prosperity of the EBID, which has realized massive capital gains over the past years by holding Ecobank stock. As detailed in the EBID's financial reports, profits they have gained from Ecobank's shares have allowed the development bank to begin and continue development and infrastructure projects throughout the West African sub-region.[146] In addition to the capital gains, the EBID made over $600 million in profit when it sold some of its Ecobank shares in 2007.[147] Indirectly, we see another positive effect of the public sector (or intergovernmental sector), investing in the private sector and seeing extensive positive returns.

*How Do These Networks Contribute to Regional Integration?*

These networks have the potential to play an important role in Ecobank's non-state-led efforts toward regionalization. These relationships often contribute to the strengthening of the bank, which in turn might contribute to an increase in regional trade. Western Union allows citizens to make quick, secure, fast payments between West African countries. EBID infrastructure projects increase ease and reliability of transportation, electricity, and water services. USAID/Ecobank-financed development projects allow small and medium enterprises to gain credit history and receive further financing. Finally, IFC credit guarantees allow Ecobank to finance intra-West African trade ventures.

Ecobank can employ its tools as a financial institution in establishing and developing these relationships. As an efficient allocator of capital with a regional presence, Ecobank

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[145] Ibid.
[146] ECOWAS Bank for Investment and Development, *Annual Report*,[2007].
[147] ECOWAS Bank for Investment and Development, *EBID Strategic Plan 2007-2011*

continues to attract attention from international institutions, both intra-African and extra-African. If the bank continues to succeed, it can continue to forge institutional relationships in the efforts of more effectively achieving its dual mission – profitability and African integration.

## Ecobank Services

Ecobank's services also contribute to the group's ability to promote regional integration. As noted in Chapter III, Ecobank has been recognized for its innovativeness – much of which is due to its spread of banking services. By increasing the level of services provided to business-owners, Ecobank may help to incentivize cross-border traders to conduct their transactions in the formal economy. These services can be beneficial to their businesses and promote even further growth and expansion. Increasing inclusion of the informal economy could also help local and national governments by increasing tax revenue and recorded trade. In addition, Ecobank's prospectus points out how local citizens of its member countries are encouraged to buy shares of the stock, thus allowing them to have a say in their country subsidiary and claim some of the bank's profits.[148] For example, twenty nine percent of Ecobank Nigeria shares are held by Nigerian citizens and associations, while the remaining seventy one percent is owned by the Ecobank parent company.[149]

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[148] Ecobank Transnational Inc., *Share Offer Prospectus*, 28.
[149] Ecobank Nigeria *Annual Report*, 2008.

Since the emergence of the internet, the bank has been working to improve its website and online banking. The current www.Ecobank.com site allows customers to open accounts online, locate branches and ATMs, make transfers both inside and outside the bank, and access account data at any time. The website also provides extensive information on business and wholesale banking accounts, as well as the services specific to those categories (foreign exchange, letters of credit, economic research, commodities research, etc.) Ecobank's technology operations are delegated to an Ecobank subsidiary, eProcess International. By centralizing and automating much of the bank's payment and clearing systems, eProcess helps to reduce transaction costs for the bank, improving efficiency.[150]


voire

The bank also offers regional credit and debit cards, available to customers in all thirty Ecobank countries. These cards can be used at any Ecobank location, allowing customers to access their funds easily throughout the entire bank network. Growth of the Ecobank branch network (and deeper penetration into border areas) will increase ease of access for cross-border

[150] Tella and Akinboade, *ECOWAS Monetary Integration: The Imperatives of Financial Market Development*, 83.

traders. Ecobank has already established border branches in West Africa (as opposed to other African sub-regions.) Figure 19 illustrates Ecobank branch locations in Ghana and its neighboring countries (Burkina Faso, Côte d'Ivoire, and Togo.) It presents a clear visual perspective on how the bank's expansion to border areas can facilitate trade in those regions.

Of course there are other African banks (and non-African banks operating in Africa) that have rolled out the same or similar products. However, the function of these services alone is not enough to spur a growth in regional trade. Instead, it is both the function *and* the geographic location of the branches, ATMs, and points of sale which might allow Ecobank to foster this type of regional growth. These locations and services in border areas can help to attract actors in the informal economy, which Lee (2004) claims are principle actors in the new regionalisms.[151] While it is not explicitly in Ecobank's mission to expand their market to informal economies, the bank's expansion into sparsely populated areas along with its array of services might attract these actors. No other African or European bank operating on the continent has a similar combination or depth of geographic presence and innovative banking services.

### The Ecobank Model and its Prospects for Development and Growth

Ecobank's rapid success makes it an intriguing case study for other regional organizations. Although Ecobank was established in 1986, eleven years *after* ECOWAS itself was founded, the bank has seen much greater success than its co-founder. In fact, ECOWAS could advertise the Ecobank group as one of its strongest success stories – unlike many other regional integration efforts, the *self-sustaining* bank has been operating successfully and expanding for nearly twenty five years. What do ECOWAS (and other regional organizations) have to learn from the Ecobank model?

[151] Lee, *The Political Economy of Regionalism in Southern Africa*, 35.

Ecobank's structure of a parent company (Ecobank Transnational Incorporated (ETI)) and its in-country subsidiaries allow the bank to work *within the confines of African sovereignty*. In other words, rather than going above or against the sovereign (and often, stubborn) leaders and bureaucrats, Ecobank has been able to thrive and prosper by using a highly decentralized model which respects the individual laws and regulations of each state. Ecobank banking operations continue irrespective of changing political climates in African states. The bank's day-to-day operations do not appear to be governed by political parties or political will.

Ecobank has worked within the confines of the system, much as other examples of new regionalisms do – taking the women's movement and human rights movement as examples – networks that operate across borders yet within sovereign limits, and still manage to exert meaningful and significant influence and power.

Up until today, the Ecobank model has allowed the bank to expand to thirty countries. No other bank or enterprise has been so successful in expanding to so many countries in such a short span of time. This model of a strong consolidation of the parent company ETI, which is free of any sovereign country limits, coupled with the subsidiary country divisions which *are* subject to rules of the individual countries, allows Ecobank to operate similarly to American banks such as Bank of America and Citibank (Citibank employees heavily advised Ecobank during the African bank's early years.)[152]

While there are a number of banks that share similar properties and services to Ecobank, it appears that no other bank or group offers an equal array and breadth of services. If examined individually, Ecobank's partnerships and services might have little impact on intra-regional trade or West African integration. However, as a collective effort, they work synergistically to support

[152] Bank of America and Citi operate in all fifty states, despite being incorporated in only one state. Kassi, *Interview with Ecobank Senegal Executive Director*

Ecobank's dual mission – to create profitability for shareholders and perhaps in the process, promote regional integration among African states.

# VII. CONCLUSIONS

This case study provides a perspective on measures that might be taken to contribute to the lengthy process of regional integration through the growth of the financial sector as a means of support expanded trade of African goods markets, improved infrastructure, and stronger institutional networks.

This thesis brings forth two key findings. First, the direction of trade data illustrates that Ecobank presence in a country pair positively correlates with an increase in trade among those two countries. This relationship is visible graphically and is also supported by quantitative regression analyses. The results from the regression (which contained over 1600 observations) are statistically significant at a 1% level. The latter data analysis takes into account the size of economies in a trading pair, distance between countries in a pair, and the existence of common currencies and official languages.

The quantitative analysis in this thesis is not exhaustive and does not include data on political stability of countries or factors of trade openness. Therefore, over the coming years, this study recommends that more extensive and inclusive data analyses of Ecobank and its impact be completed to expand the sample dataset and to further control for both endogenous and exogenous variables.

Secondly, an attribute which seems to play a large qualitative role in the bank's ability to impact regional integration is its *dual* mission. Judging from the bank's organizational structure, regional strategy, offering of banking services, and institutional relationships, this mission has been well-integrated into the bank's business model. These components of the bank's operations illustrate its desire to develop a broad African client base. In some cases, this might allow the bank to facilitate financial transactions across borders and support investment opportunities. In turn, these opportunities can contribute to the broadening of regional markets

Rather than existing solely to promote regional integration (like other intergovernmental regional organizations), Ecobank seeks to foster integration *and* generate profits. Thus, the latter objective allows the bank to sustain itself and expand, ultimately enabling it to further its interests in the former objective. This aspect greatly contributes to the sustainability of the bank and its two-sided mission. In fact, one of the pitfalls of past and current regional integration efforts is a lack of funding to carry out desired regional development projects. In addition, efforts are often politicized and bureaucratized to the extent that they are unable to accomplish their desired goals.

The Ecobank model solves this by securing profits first, then expanding its regional model, efforts, and clientele. Due to its nature as a profitable financial institution, Ecobank has not required any further funds from its co-creator, ECOWAS. Rather, through achievement and success the bank has attracted sufficient capital to expand and even outgrow its initial aspirations of West African expansion. Also, as a financial institution, Ecobank's focus on efficiency allows it to minimize unnecessary procedures and red tape which may hinder operations and profits. While the recent financial crisis has exposed some of the dangers of financial innovation and complex financial instruments, Ecobank seems to have insulated itself by avoiding investing in risky vehicles such as CDOs, CDSs, and SIVs. Financial sector development (and the expansion of Ecobank) must heed this caveat in the coming years.

As a way forward, it would be useful for other banks and private businesses to similarly integrate aspects of regional growth into their business models. To incentivize businesses to do this, governments and/or regional organizations could encourage the establishment of similar dual missions. Perhaps this could be accomplished through joint ventures between public and private sector entities (like that which established Ecobank – the ECOWAS/FWACC partnership.)

In light of these facts, it is apparent that Ecobank (and perhaps other regional banks) are in fact regional actors which should be considered in future studies of regionalization. The quantitative evidence coupled with the qualitative evidence begins to illustrate the role that Ecobank might be playing as an actor in the regional arena. That role might be small: after all, as of 2003, Ecobank still only held around nine percent of the market share in the West African countries.[153] However, with trade numbers between many of these pairs only totaling in a few million US dollars per year, this small market share might have a significant impact on intra-ECOWAS trade.

The African financial services sector still remains underdeveloped and ill-fitted to facilitate African growth in the 21st century. In order for sustainable growth and regional integration to occur, policymakers must look beyond the unsuccessful REC model towards new avenues. This thesis contends that the Ecobank model may be one of these more successful avenues, and perhaps, it could facilitate banking and commerce across spaces that are not currently integrated in a political or economic sense. This could be a step in the right direction for integration among the ECOWAS countries.

In fact, the Ecobank model may be just what Africa needs to more fully realize its economic potential. The spread of well-integrated financial institutions (such as Ecobank) within the region could foster higher amounts of formal, intra-regional trade. This thesis intends to introduce the bank and its model to a larger academic audience so that future work may be done to determine the impact of other regional banks in Africa.

[153] Sy, *Financial Integration in the West African Economic and Monetary Union*, 9.

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