Liberté, Egalité, Fraternité: External Imbalances, Membership Costs and the Case of the West African Economic and Monetary Union

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Abstract

In light of heavily debated concerns of the structure of monetary unions and the prevalence of external imbalances, an intriguing question emerges of the case of West and Central African countries in the CFA Franc zone. The sixty-year-old monetary union left to former French colonized countries in West and Central Africa, entitled Communauté Financière d'Afrique (CFA) is comprised of 14 members. This monetary and economic union, which benefits members due to its ability to sustain the most stable inflation rate across the region, has come across a substantial amount of criticism both politically and economically, due to its continued French ties and rigid nature limiting members fiscal and monetary policy adjustments.

This paper utilizes quantitative and qualitative methods in order to examine and discuss external imbalances found in the CFA Franc zone and subsequent membership costs that states maintain in the Union. This thesis aims to provide both a macroeconomic analysis and public policy discussion on members' efforts to reach a level of convergence in order to extract the greatest benefits from the agreement. This triangulation approach of a multilevel convergence of data is taken from Creswell (2013) and a macroeconomic framework by Richard Wood (2014) is used to understand external imbalances.

Through the course of this research, it is firmly established that members in the WAEMU are not well aligned and although there are periods of convergence, these are short lived. Members in these emerging economies face vast uncertainties and challenges which pose a threat to sound policy, not to mention the pervasive issue of bureaucratic corruption plaguing this region. A greater realization of the necessity for members to seek greater unification in both their domestic policy and economies to decide the future of the Union emerges from this research. Resulting in members needing to choose to either relent sovereignty in fiscal decision making, or to consider a different, less unified path.

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List of Abbreviations

ASEAN- Association of Southeast Asian Nations
BCEAO- La Banque Centrale des Etats de l'Afrique de l'Ouest
BEAC – Banque des États de l'Afrique Centrale
CEMAC - Communauté Économique et Monétaire de l'Afrique Centrale
CFA - Communauté Financière d'Afrique
CFAF - Communauté Financière d'Afrique Franc
CPI – Consumer Price Index
CAR – Central African Republic
EU – European Union
EMU – European Economic and Monetary Union
FDI – Foreign Direct Investment
GDP – Gross Domestic Product
GNI – Gross National Income
HIPC – Heavily Indebted Poor Countries
IMF – International Monetary Fund
MU – Monetary Union
OCA – Optimum Currency Area
PER – Programme Economique Régional
PPP – Purchasing Power Parity
SSA – Sub-Saharan Africa
UEMOA Union Économique et Monétaire Ouest Africaine
UNDP – United Nations Development Program
WAEMU – West African Economic and Monetary Union
XOF – Currency code for West African Franc

Introduction

When the decolonization of former French colonized countries in West and Central Africa occurred in the 1960's, remnants of French influence remained in the form of a monetary and common currency union which this region still employs today. Entitled Communauté Financière d'Afrique (CFA), this union consists of two monetary unions divided by geographical location in Sub-Saharan Africa (SSA). In West Africa, there is the West African Economic and Monetary Union (WAEMU[1]) comprised of: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The Economic and Monetary Community of Central Africa, or CEMAC, consists of: Chad, the Central African Republic, Equatorial Guinea, Gabon and the Republic of the Congo.

This monetary union was pegged to the French franc originally, but now to the Euro, and is guaranteed the free convertibility at a fixed parity by France. The countries in this arrangement have agreed to the following rules: a minimum of 50% of each country's foreign reserves are maintained in an operations account within the French Treasury, a fixed exchange rate guaranteed by France, and a cap on loans from the central bank not exceeding 20% of the previous year tax receipts per country[2]. Concerns have been raised as to the possible costs associated to membership to this monetary union due to the asymmetries sustained across members. As the EU reported in 2008, this monetary union has encouraged macroeconomic stability but has left this region prone to low intraregional trade[3]. And some have suggested that due to the rigid nature of a currency union, there may be membership costs experienced disparately by members.

[1] The French name is Union Economique et Monétaire Ouest Africaine and the French abbreviation is UEMOA, for the purposes of this paper, the English abbreviation of WAEMU will be used.
[2] Nicoletta Fagiolo. "The CFA Franc: Africa's Financial Anachronism." *NSNBC*. October 2015.
[3] Martin Hallet. *The role of the Euro in Sub-Saharan Africa and the CFA franc zone.* No. 347. Directorate General Economic and Financial Affairs (DG ECFIN), European Commission, 2008.

Research Question and Hypothesis

In light of criticisms of the European Monetary Union (EMU) aggravating divergence within its member states, a substantial amount of literature focused on examining these external imbalances has emerged[4]. These authors bring to light a question as to the situation of other monetary unions *vis-à-vis* the perils dramatically played out, in large part, between North and South countries during and post-financial crisis in the EMU. These studies, in large part, blame the more rigid nature of a monetary union due to limited fiscal and monetary policy adjustments. In the face of financial crises, countries are less able to independently adjust according to their own domestic market needs, due to monetary adjustments made exclusively by the governing body of the entire system.

In considering the EMU case, although hailing from dramatically different economies, constituencies, and political institutions, an intriguing question emerges then of the case of West and Central African countries in the CFA zone. If the CFA zone does experiences a similar overflow of regional imbalances, what impact does this have on members of the Union? Past researchers[5] have even suggested there may be costs to the welfare system due to country-specific austerity measures responding to asymmetric shocks. Exploring this question further can enable a better understanding of how membership to a currency union, such as the CFA zone, stimulates or dissipates inequalities among members in Sub-Saharan Africa. In consequence, at the core of this puzzle, this research seeks to provide a greater understanding of membership costs to the CFA Franc zone.

For the purposes of this study, the following questions will be asked:

Q1: Have members in the West African Economic and Monetary Union (WAEMU), experienced external imbalances due to membership to a common currency and monetary union?

Q2: What impact do these imbalances have on members and their relationships with the rest of the Union?

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[4] See: Matthijs 2014; Ederer and Reschenhofer 2013; Gros 2012; Schoder, Proano and Wemmler 2011.

[5] Xiaodan Zhao and Yoonbai Kim. "Is the CFA Franc zone an optimum currency area?." *World Development* 37, no. 12 (2009): 1877-1886.

To respond to these questions, this study is divided into three major sections. First, providing a foundational framework of understanding the contextual and historical basis of this subject. After this, a brief consideration of the structure of the Eurozone and the imbalances between member states as they relate to the costs of membership to a currency union. Following this, an application of the macroeconomic framework established by Richard Wood[6] to assess and understand the external imbalances within the WAEMU and use of a discussion on the convergence criteria adherence by member states. In conclusion, a brief case study on a WAEMU member, Côte d'Ivoire, whose persisting instability provides an opportunity to better understand how its participation in the WAEMU has affected other members due to their common membership to a monetary union.

Methodology

This paper will use quantitative and qualitative methods in order to examine and discuss external imbalances found in the CFA. A quantitative collection of data will first be used in order to establish an understanding of the macroeconomic issues pertaining to imbalances in this region, and then qualitative methods of exploring primary policy sources and discourses in order to contribute to an overall understanding of these imbalances. This political economy approach is a method that is helpful in providing both an understanding of the data and a relevant discussion with the intention of gaining a greater understanding of this puzzle. This triangulation approach of a multilevel convergence of data is taken from Creswell[7] (2013).

To provide a general understanding of the research problem, external imbalances found within the CFA monetary zone will be examined. To accomplish this, the macroeconomic framework established by Richard Wood (2014) will be used to assess and understand the external

[6] Richard Wood. "Eurozone Macroeconomic Framework: Reducing Internal and External Imbalances." *MPRA Paper* 53569 (2014).
[7] John W. Creswell. *Qualitative inquiry and research design: Choosing among five approaches*. Sage Publications, 2012. Pp. 85.

imbalances within the WAEMU. The variables used to establish and understand external imbalances are similar to those used in many global imbalance studies. Using data on current account balances and external debt to produce individual member rankings of overall external imbalances, as borrowed from Wood's 2014 framework. Subsequently, a brief analysis of WAEMU member's compliance to the policy agenda of the BCEAO and comparison of individual member's contributions to the Union will be conducted, in order to understand the divergences that occur in participation in the monetary union on a policy level. The quantitative data used in this research will be taken from the World Bank and WAEMU's central bank, Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), in addition to policy literature from the BCEAO. Concluding this research, the final section will work to better understand the membership cost and a divergent members' relationship to the rest of the union by conducting a short case study of Côte d'Ivoire.

The West African region is selected due to recent interest focused on the creation of a West African Monetary Zone, which this region has announced it intends to create by 2020[8]. The union would span from Senegal to Gabon, and incorporate the massive economies of Ghana and Nigeria. Because of the emerging literature[9] surrounding the creation of this new monetary union connecting such a vast economic area, the study of this West African region is of greater relevance than that of the current state of the Central African members in the CFA zone. Because of the Union's single currency devaluation in 1994, and the subsequent financial reforms enacted for all member countries, the data sets used will be from 1995 until 2016, or when the most recent cohesive data is available.

Justification and Rationale

This research fills a gap in the literature in mapping membership costs to the CFA monetary union in West Africa, and provides a greater understanding of the variety of macroeconomic, social

[8] For details on this agreement, see: http://www.wami-imao.org/
[9] Charalambos G. Tsangarides and Mahvash Saeed Qureshi. "Monetary union membership in West Africa: A cluster analysis." *World Development* 36, no. 7 (2008): 1261-1279.

and political costs, and benefits that membership to a monetary union in sub-Saharan Africa can have. The lack of literature examining the membership costs within the CFA zone is quite surprising, especially in light of this union currently being one of the oldest surviving currency unions in the world. The West African region in particular has been intermittently studied, with much of the focus remaining on the booming economies of Ghana and Nigeria. Rife with political and economic instability, the nature of economies in these developing markets make them less reliable in data availability as well as much more difficult to predict based on past trends.

Additionally, there seems to be a lack of literature on the external imbalances within emerging economies in West Africa particularly. Finding a framework to use to examine these imbalances in light of the unique circumstances in which these countries exist proved to be difficult. Uncertain variables such as kleptocracy, for example, created the necessity to examine a unique set of variables to understand these imbalances on a fiscal, but also social and political level.

Limitations and Expected Outcomes

An issue that may arise throughout this mixed method analysis of economic and public policy data would be access to specific data. Although the databases stated above are robust and frequently updated, it is important to note that within these developing and democratically fragile countries, information is not as readily available as in developed economies, which results in data that is either difficult to locate or containing gaps.

In the course of this study, the expected outcomes are, due to the heterogeneous nature of members of this currency union, there will be intraregional imbalances sustained across the CFA zone. Additionally, by examining the intersection of monetary unions and the political economy of a region, as Couharde, Coulibaly, Guerreiro, Mignon[10] discuss, this could prove to have an

[10] Cécile Couharde, Issiaka Coulibaly, David Guerreiro, and Valérie Mignon. "Revisiting the theory of optimum currency areas: Is the CFA franc zone sustainable?." *Journal of Macroeconomics* 38 (2013): 428-441.

informative outcome. As these measures are not accounted for typically in studies on currency areas, especially in a development context such as West Africa.

The first chapter will begin with an overview and foundational understanding of the CFA monetary union, former French colonial ties, the current arrangement of this unique monetary zone, and a discussion of the costs and benefits of membership to a monetary union in light of the EMU example, as well as traditional theories on currency areas. In the second chapter, a macroeconomic approach will be used in discussing the WAEMU as a whole in regards to the previously discussed measures of imbalances, to provide a greater understanding for which countries are experiencing the most notable divergences. Additionally, a macro-level review of the discourse and frameworks of regional and domestic policy recommendations will be examined in light of the member's responses to the prescribed convergence criteria given to the members of this Union by central bank authorities, will be provided. Next, the third chapter will work to better understand the case of a single member, Côte d'Ivoire, and the effects of its membership in relationship to the rest of the Union. In conclusion, the fourth chapter will briefly review the findings of this research and the implications for the future of the CFA Franc Zone.

Chapter One

Historical and Theoretical Context of the CFA Franc Zone

1.1 History of the Franc Zone

The Franc Zone was instituted by France in 1939 in order to stabilize and create a common currency, and was originally pegged to the French Franc. Independence for former French colonies between 1954 and 1962 prompted the need for these countries to have autonomous monetary policy. Agreements signed initiating monetary integration by former French colonies with six countries, Madagascar, Morocco, Algeria, Tunisia, Mauritania and Guinea-Conakry, leaving the monetary union[11]. These agreements formed two central banks, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), comprised of Cote d'Ivoire, Benin, Burkina Faso, Niger, Togo, Senegal, Mali, and eventually Guinea-Bissau in 1997. And in Central Africa, five states entered these agreements: Cameroon, Central African Republic, Chad, Congo and Gabon, who formed the Banque des Etats de l'Afrique Centrale (BEAC) in 1959. A variety of reforms and cooperative agreements have been negotiated over the almost 60-year lifespan of this monetary union.

Shrinking from its original membership, six members departed in the following order: Tunisia in 1958, Morocco in 1960, Guinea in 1959, Algeria in 1964, Madagascar and Mauritania in 1973[12]. These six members who left the Union departed shortly after independence was gained from France, and they selected to pursue their own independent monetary policies. Consider Madagascar, for example; post decolonization it was subsequently renamed the Democratic Republic of Madagascar, and the country left the Franc Zone and created a central bank that took over the previous arrangement and began issuing its own currency, the Ariary.

The fourteen current members chose to remain in the monetary union primarily for the continuity of their economies. In addition to the added benefits of stable inflation, a guaranteed currency by France increases the confidence of external investment being attracted to the region. It

[11] Francois de Coustin. "The Franc Zone: Fact Sheet." *Banque De France*. 2016.
[12] Staff. "A Brief History of the CFA Franc". *African Business Magazine*. February 2012. Web.

should be noted, however, the heavy hegemonic French influence and the politicization of these economic ties has also been attributed to swaying the decisions of the political leaders emerging from these newly independent countries, who chose to enter into this post-independence economic agreement with their former colonizer.

1.2 A Unique Relationship

Francophone countries have shared a unique social, political, military, and economic relationship with France from the beginning of the colonial era to modern times. Perpetuated in a variety of ways, the CFA zone is one such example of sustained French influence over this region. Author François-Xavier Verschave, coined the term '*Françafrique'* for this arrangement, and criticizes this special relationship in his 1999 book, *La Françafrique*[13]. In this work, he accuses Jacques Foccart, leader in the decolonization of West and Central Africa, of setting up a system of dependence and legitimating dictatorships in favor of this system in Francophone Africa. Foccart[14] fostered favorable ties under the command of Charles de Gaulle, about which Douglas Porch writes that "Foccart was assigned the task of orchestrating an arrangement whereby French interests could maintain the upper hand in her former colonies, for whom she had done virtually nothing to prepare for independence."[15] Military *coups d'état* littered the region in the late 1960's as power held to French backed leaders, such as Jean-Bedel Bokassa as president of the Central African Republic.

The theory of international clientelism[16], as first introduced by Jean-Francois Medard[17] (1976) and elaborated further by Medard in *Africa and the North*[18]*,* illustrates the beginnings of this inequitable relationship. This theory asserts that these types of relationship are not entirely void of

[13] François-Xavier Verschave. *La Françafrique: Le plus long scandale de la République*. Vol. 380. Paris: Stock, 1998.
[14] Craig Whitney. "Jacques Foccart Dies at 83; Secret Mastermind in Africa." *New York Times*. Print. March 1997.
[15] Douglas Porch. *The French Secret Services*. Farrar, Straus & Giroux. Book. 1995.
[16] Defined by Médard (1976) as: "a transposition to the international level of a traditional clientelistic relationship, a relationship of personal dependency based on an exchange between two persons, the patron and the client controlling unequal resources."
[17] Jean-François Médard. "Le rapport de clientèle: du phénomène social à l'analyse politique." *Revue française de science politique* (1976): 103-131.
[18] Ulf Engel and Gorm Rye Olsen, eds. *Africa and the North: between Globalization and Marginalization*. Routledge, 2004.

influence of the client, as Francophone countries willingly decided to remain in the CFA zone. However, this theory demands that influences apart from purely economic decisions play a predominant role in the formation of interpersonal and political relationships between patron and client elites. A dynamic that is clearly evident within the history of this Union. From past access to oil, uranium, and commodities, to maintaining a broad influence of French support in the United Nations by pro-French states, French interests' reached deeply into Francophone Africa. Causing some to suggest that "decolonization did not mark an end, but rather a restructuring of the imperial relationship."[19]

This unique relationship can be seen through the additional methods of support in which France provided for these countries and their politicians. Aside from support for the monetary union, historically, French foreign aid has been the largest supporter of its former colonies, at one point reaching 85% of its annual development assistance[20]. In the face of an economic recession in France in the early 1990's, this type of relationship was no longer sustainable and French-African policy shifted and France decreased their foreign aid support for Francophone countries. Despite this, a 2006 report[21] cited that French support in terms of development aid has aided in the sustenance of this economic regime in situations in which fiscal adjustments are not possible by national governments due to their membership to the Union.

Militarily supported regimes perpetuated the French support of material interests. Upon independence, France maintained military bases in Senegal, Côte d'Ivoire, Gabon, Central African Republic and Chad. Although remaining largely unengaged, French military has directly intervened nineteen times between 1962 and 1995[22], stating that these engagements were to maintain stability across the region. Accusations of perpetuating favorable elite relationships between governments

[19] Chafer, T. 2001. French African policy in historical perspective. *Journal of Contemporary African Studies*, 19(2): 165–182.
[20] Martin, G. 1995. Continuity and Change in Franco-African Relations. *The Journal of Modern African Studies*, 33(1), pp. 11.
[21] Étienne B Yehoue. "The CFA arrangements: more than just an aid substitute?." *Economie internationale* 3 (2006): 107-133.
[22] Andrew Hansen. "Backgrounder: The French Military in Africa." *The New York Times*. February 2007. Print.

proliferate the French-African military history. In the 1994 genocide in Rwanda, France intervened ostensibly on humanitarian grounds in June of 1994; however, a questionable evacuation of French nationals and Rwandan government officials, eventually accused of supporting the genocide, was also led by the French earlier in 1994. Despite greatly scaling back their military presence in the past two decades, France most recently intervened in the 2002 civil war in Cote d'Ivoire and in 2013 in Mali, ostensibly on humanitarian grounds.

Accusations of neocolonialism have widely enveloped the understanding of France's intentions in their assistance in maintaining this monetary agreement in Francophone countries post-decolonization. The added trade benefits were undeniable, a luxury which France undoubtedly benefitted from in regards to trade relationships. Despite countries like China and India currently comprising most of this regions international trade, historically, French exports to the Franc Zone averaged 44% of the total global trade to this region between the years 1960 and 2004[23].

1.3 Modern Day CFA Zone Structure

The Franc Zone is unlike any other fixed exchange rate arrangement in the world. Historically, this monetary union is the longest surviving in Africa. Geographically, resting within developing economies in former French colonized West and Central Africa, the diverse territories that comprise this region offer a unique setting for this institution. Comprised of four principles, the members are guaranteed unlimited convertibility by the French Treasury, a fixed exchange rate pegged to the euro, free transferability, and the pooling of foreign reserves of the two central banks at 50% of foreign reserves, maintained by the French Treasury[24]. Safeguard mechanisms are used in the form of an operations account which can be used in the case of shortages in reserves, and fiscal regulations which govern the system.

[23] Étienne B Yehoue. "The CFA arrangements: more than just an aid substitute?." *Economie internationale* 3 (2006).
[24] Francois de Coustin. "The Franc Zone: Fact Sheet." *Banque De France.* 2016.

1.3.a Governance Structure of BCEAO and CEMAC

The West African states are governed by the Banque Centrale des Etats de l'Afrique de l'Ouest, or BCEAO located in Dakar, Senegal. And the Central African, CEMAC, members are overseen by the Banque des États de l'Afrique Centrale (BEAC), located in Yaoundé, Cameroon. For the countries who chose to remain in the Franc Zone, these banks were initially established in Paris and eventually moved to Africa in the late 1970's, and continue to operate as a conduit between France and these members. Both regions have biannual meetings with France, who maintains a considerable amount of influence over this system through an administrative presence in the governance of both central banks. In order for any significant decisions regarding this union to take place, France must be in agreement and involved, leading some scholars[25] to indicate that this continued depth of involvement by France is used as a tool that subverts the national sovereignty of these nations.

1.3.b. Fixed Exchange Rate to the Euro

Since 1999 the CFA franc has been pegged to the euro and guaranteed by France with a conversion rate of 1 EUR to 655.957 XOF[26]. The benefits of a fixed exchange rate have been largely debated across the literature on this type of exchange rate regime. A flexible exchange rate provides room for a country to respond to shocks and stabilize domestic markets through independent monetary policy. While a fixed exchange rate is able to provide security for investors, greater access to capital markets, and lower inflation, although at the cost of monetary autonomy and risks of currency misalignments[27].

[25] Guy Martin. "The Franc Zone, underdevelopment and dependency in Francophone Africa." *Third World Quarterly* 8, no. 1 (1986): 205-35. doi:10.1080/01436598608419895.
[26] XOF is the currency code for the West African Franc.
[27] Issiaka Coulibaly and Junior Davis. "Exchange rate regimes and economic performance: does CFA zone membership benefit their economies?" *Munich Personal RePEc Archive.* Nov. 2013

1.3.c. Devaluation in 1994 and Fiscal Reforms of 1999

A pivotal moment came in 1994 for the Franc Zone when, due to a long period of declining terms of trade and rapid overvaluation of the franc had dramatically decreased the competitiveness of the region. An eroding tax base, limited national adjustments, and poorly managed banking systems all contributed to an accumulation of critical issues, reaching a climax in 1994 when the BEAC, BCEAO, and French authorities announced a 50% devaluation of the franc across the Union. Although this was planned and established over a series of years, due to fears of capital flight and bank runs, this process and decision was withheld from the public until the moment it was enacted. Largely successful in mitigating the large imbalances, internally and externally, that had been widespread across these two regions, the devaluation did not come without a cost.

Although necessary, the fallout following the devaluation weighed heavily on the region. Inflation quickly spiked and civil unrest, protests and sporadic violence was widespread. The devaluation exacerbated the disparity[28] between social classes of wealthy French living in these countries, who could afford to buffer for the sudden inflation, while the poorer local population was not prepared for the crisis. Massive aid flowed in from the international community in the years following the devaluation, which helped to offset the socioeconomic impact of the devaluation.

Reforms followed the devaluation in order to avoid a reoccurrence. Collaboratively established between France and the two central banks, these reforms required member states to work towards macroeconomic convergence by aligning national and regional policies, and eliminating trade restrictions while creating regional trade unions[29] in order to facilitate greater intraregional trading[30]. The elements of the reforms, in theory, provided an environment more conducive to free trade across borders. Unfortunately, due to limited transportation infrastructure and non-tariff barriers[31], intraregional trade within the Franc Zone remains limited. Institutional

[28] Andrew Hansen. "Backgrounder: The French Military in Africa." *The New York Times*. February 2007. Print.
[29] WAEMU and CEMAC.
[30] For more details on the convergence program, see: de Coustin, Francois. "The Franc Zone: Fact Sheet." *Banque De France*. 2016.
[31] Anne-Marie Gulde and Charalambos Tsangarides. *The CFA Franc Zone: Common Currency, Uncommon Challenges*. IMF. Print. April 2008. Chapter 1, pp. 5.

barriers are partly to blame for the limited trade. It is important to note the sluggish execution of many fiscal reforms in this region, as many member states are still working towards implementation of these reforms. Many scholars indicate this as a primary issue in achieving the sustainability and growth of this region[32], a topic which will be explored in the following chapter.

1.4 Mundell's Optimum Currency Area

The pioneering theory on currency unions, Mundell's theory of Optimum Currency Areas, or OCA[33], provides a theoretical framework to understand the desirability of regional currency unions. First published in 1961, Mundell provides four criteria in which regions should comply with to be considered an OCA. These criteria include: (1) mobility of labor across the region, (2) capital mobility and wage flexibility between member states, (3) a risk-sharing mechanism, (4) and a harmonization of business cycles to share economic growth and diffuse recessions[34].

Centered on the ability for a currency union to absorb shocks to its system, Mundell emphasizes the importance of a currency union being able to respond to asymmetric shocks through maintaining mobile factors of production and labor. In other words, the mobility of capital and labor to turn from a suffering market to those experiencing a surplus, is essential. This mobility brings "balance…[to be] restored in the stability of prices and employment."[35] These, according to Mundell, are criteria in which common currency unions must meet in order to be considered an "optimal currency area" or OCA.

Countries with independent monetary policy that are not a part of a single currency union, can use flexible exchange rates to allow the countries to depreciate their currency to offset imbalances. In the absence of independent monetary policy, Mundell asserts that members of a

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[32] Ibid. pg. 15.
[33] Robert Mundell. "A Theory of Optimum Currency Areas." *The American Economic Review.* Vol. 51. Issue 4 Sept. 1961, 657-665.
[34] Staff, Investopedia. "Optimal Currency Area." *Investopedia.* July 20, 2015.
[35] Alexandre Swoboda. "Robert Mundell and the Theoretical Foundation for the European Monetary Union." *IMF.* 1999.

currency union have these two mechanisms, wage flexibility and labor mobility, to return to an equilibrium in the case of financial shocks. The delicate dance that countries balance between wage flexibility and labor mobility produces shifts across markets in order to sustain an equilibrium[36]. To summarize, according to Mundell's theory, in the case that wage rates are rigid and there is a low mobility of labor, the members within a monetary union will struggle to respond to asymmetric shocks, such as a shift in demand, due to the rigidity of their fiscal policy options. This reveals a potential cost of membership to a monetary union and its potential to outweigh the benefits of the union if economic stability could not be reached through these dual mechanisms of wage flexibility and labor mobility.

Countries in monetary unions can be especially susceptible to sudden stops of capital flow. Specific instability within a country can create uncertainty within the country's markets, causing capital to flee to other members of their union who hold greater trust. This only amplifies the crisis in the uncertain market, while it increases the benefits to the neighboring member states who have maintained the confidence of investors. Because of a loss of capital and a demand shift to other countries, governments can experience deficits due to decreased tax revenue and increased expenditures on social welfare due to the increased unemployment rate[37]. Countries with an independent monetary policy can adjust for this through selling bonds within their own currency, for example, to pay for their debts and ensure liquidity, while members of a common currency are not free to use these measures of adjustment in order to respond to these shocks.

1.4.a. The Franc Zone: An Optimal Currency Area?

Within the WAEMU, there is a substantial informal working sector and as a result, there is a definite gap in knowledge regarding labor mobility within these countries. However, a number of

[36] For more see: De Grauwe, P. *Economics of a Monetary Union*. Oxford University Press. 9th edition. Print. 2012. Pp. 5-7
[37] For a more detailed discussion on scenarios around the behavior of markets in a monetary union, see De Grauwe (2012).

scholars have applied Mundell's OCA to the case of WAEMU and CEMAC countries (Zhao et al. 2009; Fielding 2003; Gurtner 1999; Couharde et al. 2013). Their findings provide helpful insight on how this monetary union aligns with current theories on optimal currency areas.

Cecile Couharde et al.[38] found it puzzling that despite the currency union's failure to meet all of Mundell's criterion for an optimum currency area, it has been sustained for a half a century. The authors credit this mainly to the OCA framework failing to take political measures into consideration, in light of France's continued assistance in maintaining the Union. They conclude that due to the weak market diversification across this region, the CFA zone should be defined as a sustainable currency area rather than an optimal one. The CFA zone provides the benefits of a stable exchange rate, but not much else in responding to the lack of growth and regional disparities within the WAEMU.

Additionally, in shedding light on the benefits of a common currency in aiding economic growth, Zhao and Kim[39] investigated how the role of global, regional, and national shocks can be used as an indicator for the usefulness of a common currency for a region. As indicated in Figure 1.1, the CFA region is rife with asymmetric and national shocks, which are more difficult to respond to as a member of a currency union. In addition to this, Zhao and Kim reaffirm past literature on the lack of growth, intraregional trade, and lack of export diversification, which most of these eight countries experience, suggesting that maintaining a currency union like this, lacks benefits and may even prove to be costly to the region.

[38] Cécile Couharde, et al. "Revisiting the theory of optimum currency areas: Is the CFA franc zone sustainable?."
[39] Xiaodan Zhao et al. "Is the CFA Franc zone an optimum currency area?."

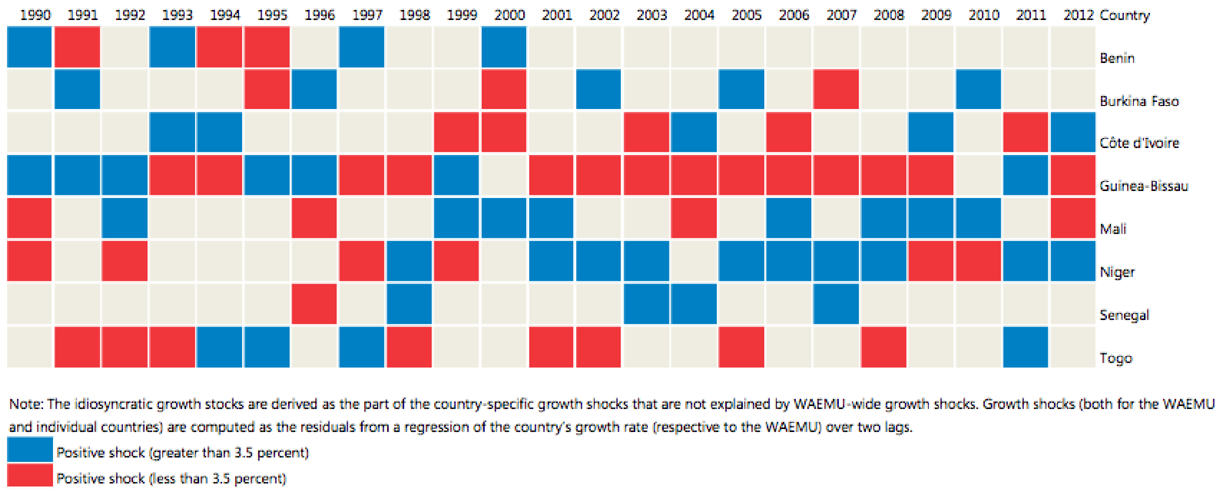

Figure 1.1*:* Frequency of Asymmetric Shocks in the WAEMU. *(Basdevant 2015)*

However, others[40] have indicated the importance of taking into account the political will of members to sustain the Union as a measure of compatibility with the OCA. Scholars (Ingram 1969; Mintz 1970; and Goodhart 1995) cite that the political will and compulsion required to maintain a common currency union may trump the economic advantages which may be derived from such an agreement. Because of the loss of autonomy in monetary policy, these scholars argue, the members need to be compelled by more than just economic benefits but political will and commitment as well, suggesting that political considerations take a greater precedence than economic viability.

The rigid structure of the CFA Franc zone does, by its nature, seeks to mitigate political variables by delegating monetary authority to a central bank. And the CFA's peg to the euro assists in eliminating measures political actors can exercise, such as surprise inflation[41]. However, with the floating exchange rate eliminated as a policy tool for governments to use, this can have substantial costs of its own in limiting domestic measures of devaluation. The decision to enter into a monetary union which offers substantial benefits to developing countries, including heightened credibility for

[40] Julius Horvath. "Optimum currency area theory: A selective review." *Bank of Finland, Institute for Economies in Transition.* 2003.

[41] William Bernhard, J. Lawrence Broz, and William Roberts Clark. "The political economy of monetary institutions." *International Organization* 56, no. 04 (2002): 693-723.

external investors and a stable inflation rate, has been widely debated as to whether or not this decision is simply politically motivated, or compelled by a benevolent social planner[42].

1.4.b Regional Integration

Mundell asserts that optimal currency areas should exist in homogenous and economically integrated regions because of the importance of member states experiencing booms and busts symmetrically within aligned business cycles. The extent to which the WAEMU is integrated regionally is best illustrated through drawing a brief comparison between this currency union, the Eurozone, and the Association of Southeast Asian Nations (ASEAN). As previously discussed, establishing a common currency union with economic agreements to encourage and establish local trading is one economic argument for a monetary union. However, in the case of the WAEMU, intraregional trade still remains extraordinarily low, as indicated in Figure 1.2.

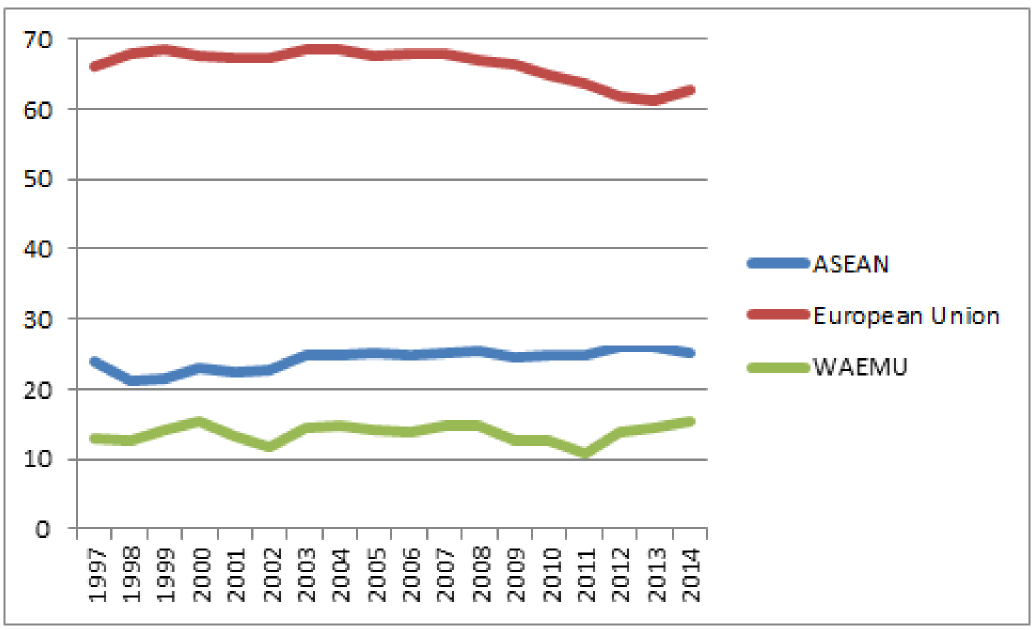

Figure 1.2 Intraregional Trade in the WAEMU. *(Brookings 2016).*

Mundell's theory requires that labor mobility between states in a currency union is healthy in order for states to be able to respond to asymmetric shocks and an increase in domestic

[42] Bernhard et al. "The political economy of monetary institutions." pg. 710.

unemployment. Scholars[43] have indicated that the WAEMU labor markets are too rigid and do not have the desired fluidity needed for an OCA. Others[44] have argued that this is caused by the lack of conditional convergence across the region as a whole in terms of financial depth, activity, and financial efficiency. Some attribute the existence of the separate central bank structure as indicative of the lack of integration, amplifying divergences in the speed and harmonization of fiscal policy implementation between the two central banks.

1.5 Topics Surrounding Membership

Although some[45] have advocated for these countries to turn to monetary autonomy and independence from France and this arrangement, for these developing economies, the benefits of a monetary regime like this outweigh the surveyed costs. Although the Franc Zone has definite shortcomings on behalf of its members, few advocate for its elimination entirely. A common consensus among scholars[46] is that the prudent path forward would be continued fiscal diligence, as initiated by the early 2000's reforms. Scholars also recommend further pressure on institutions of the member states to move their countries on a national level towards greater convergence.

From limited fiscal options to ultimately forfeiting sovereignty, many of the negatives of membership to a monetary union are discussed in this section for the sake of developing a critical dialogue. However, although briefly covered in the following section, it is important to note that there are substantial trade and economic benefits[47] to belonging to a monetary union. The following section will explore the most common issues and advantages surrounding membership to the WAEMU in order to better understand the practical effects of this Union.

[43] Chee-Heong Quah. "A Diagnostic on the West African Monetary Union." *South African Journal of Economics* (2015).
[44] Simplice A. Asongu "Real and monetary policy convergence: EMU crisis to the CFA zone." *Journal of Financial Economic Policy* 5, no. 1 (2013): 20-38.
[45] Guy Martin. "The Franc Zone, underdevelopment and dependency in Francophone Africa." *Third World Quarterly* 8, no. 1 (1986): 205-35.
[46] Anne-Marie Gulde and Charalambos Tsangarides. *The CFA Franc Zone: Common Currency, Uncommon Challenges*. IMF. Print. April 2008. Chapter 1
[47] See chapters 3 and 4: De Grauwe, P. *Economics of a Monetary Union*. Oxford University Press. 9th edition. Print. 2012. Pp. 5-7

1.5.a. Economic Growth

Regional influences, such as weak institutions, poor infrastructure, civil unrest, and public health crises, have been cited as important factors to consider when analyzing SSA's economic growth as a whole. Past literature has been divided and ambiguous on whether or not the presence of a pegged exchange rate has improved the economic growth of the WAEMU. Some[48] have argued that the low inflation and French guarantee has offered greater opportunities for FDI to be attracted to the WAEMU over its other SSA neighbors who do not have similar fiscal environments. Equally, others have suggested that the rigid nature of the Union has inhibited the economic growth of its members. Although many had hoped that the peg to the euro would encourage more trade between these two unions, in reality, this region participates in greater trade between the economies of China, Brazil, and India. Causing some suggest that greater benefits for members could be drawn from changing the arrangement and creating a peg to a basket of currencies, or the Chinese yen[49].

In Figure 1.3, growth is measured by GDP per capita, as Abdoul Aziz Wane[50] used in his 2004 study to indicate overall growth in this region. This data indicates that, aside from the growth performance by Côte d'Ivoire, there has been minimal growth in per capita incomes in this region. Wane acknowledged this observation, as well as the rapid recent growth neighboring countries outside of the WAEMU have experienced, vastly outpacing these CFA zone members.

[48] Zaka Ratsimalahelo and Mamadou Diang Barry. "Financial development and economic growth: evidence from West Africa." *Economics Bulletin* 30, no. 4 (2010): 2996-3009.
[49] Quah. "A Diagnostic on the West African Monetary Union."
[50] Abdoul Aziz Wane. "Growth and Convergence in WAEMU Countries." *IMF*. Working Paper. October 2004. 1-35.

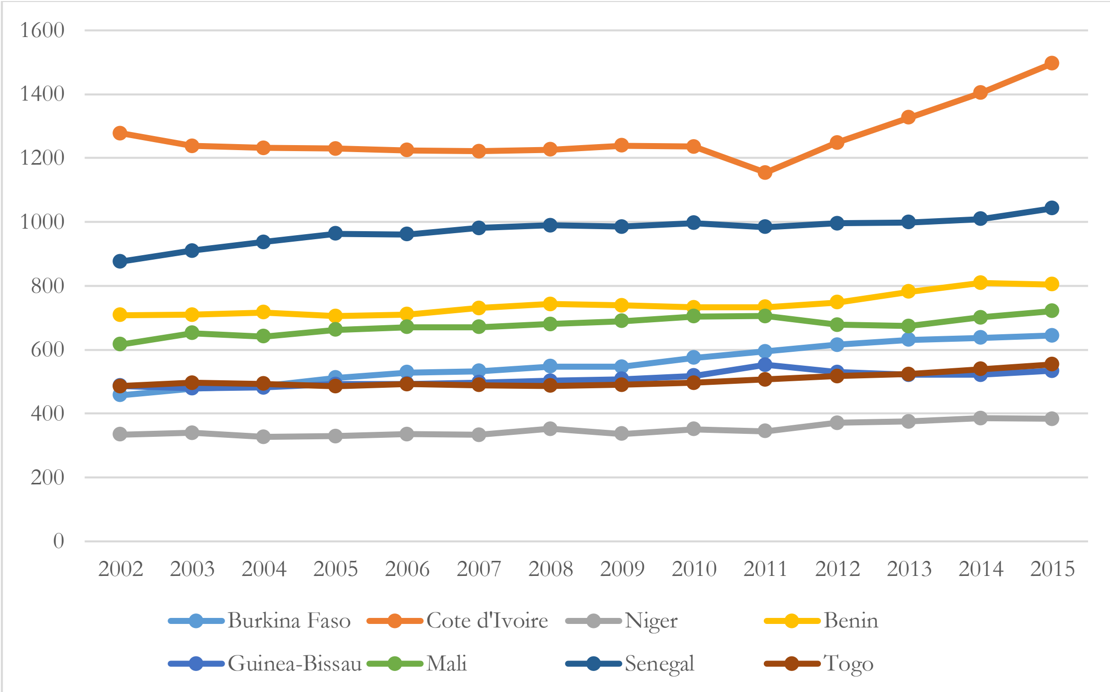

Figure 1.3 GDP per Capita for WAEMU members. *Source: The World Bank, GDP per Capita (Constant USD 2010)*

In terms of positive GDP growth, Coulibaly and Davis[51] found, as many others, that countries between 1985 and 2009 with membership to the CFA grew on average one to two percentage points more than other countries in SSA. However, this growth in comparison to their neighbors slowed in the more recent indicators between 1994 and 2009. This change suggests that the CFA zone provided fiscal discipline within this region before many other surrounding countries adopted sound measures leading to equitable economic growth of their own. The IMF[52] reported in 2016 that the overall growth had been positive in the WAEMU, but warned that this growth in the long term is challenged by weak trade growth, low levels of competitiveness[53], and slow implementation of fiscal and structural reforms.

1.5.b. Sovereignty

Guy Martin has been the strongest and most vocal scholar on the issue of state sovereignty for this region. He asserts[54] that the Franc Zone, handed from France to its former colonies,

[51] Issiaka Coulibaly et al. "Exchange rate regimes and economic performance: does CFA zone membership benefit their economies?"
[52] International Monetary Fund. "West African Economic and Monetary Union: Country Report." *IMF*. March 2016.
[53] See Appendix D.
[54] For an in depth discussion and analysis, see: Martin, Guy. The Historical, Economic, and Political Bases of France's African Policy. *The Journal of Modern African Studies*. Vol. 23, No.2. June 1985. pp. 189-208.

subverts the sovereignty of these members: "Through their acceptance of the strict membership rules of the franc zone, these African governments have actually entrusted all of their monetary and financial responsibilities to France in what amounts to a voluntary surrender of sovereignty."[55] Martin uses the example of the governance structure of the central banks, where he asserts France maintains a 'quasi-veto' right. Pointing to the political, historical, and military relationships which have littered the relationships between a hegemonic France and weaker Francophone countries, Martin believes these relationships preserve neocolonialism.

Scholars, such as Guy Martin, have grown in popularity with the current wave of nationalist movements in both WAEMU and CEMAC countries. Although few politicians have joined this debate, during the celebration of the 55th anniversary of Chad's independence, Chadian President Idriss Déby[56] spoke out against the Franc zone agreement, stating:

> Economic clauses between France are outdated… why do all exchanges pass through the central bank of France? What do we gain by putting our resources in trading accounts? What is the interest rate we earn? …Today the FCFA [is] guaranteed by the French treasury. But this currency, it is African. This is our currency. It is now necessary that this currency really be in our hands so that we can…make this… a currency that allows all those countries that still use the CFAF to develop.

This evolving and historical debate is largely political, and even Mundell asserts that the presence of independent currencies is an "expression of national sovereignty."[57] Independent sovereignty of states are sacrificed in monetary unions, undoubtedly. As previously discussed, nations in the WAEMU agreed to the terms of entering the Union. However, some have noted that the very terms of agreement of this MU has limited the "decision making autonomy" of the African states. The convertibility guarantee of the franc to euro through the operations account maintained in the French Treasury is, according to Martin, "[a] common management… [which] allows France to

55 Guy Martin. The Historical, Economic, and Political Bases of France's African Policy. *The Journal of Modern African Studies*. Vol. 23, No.2. June 1985. pp. 189-208. pg 201.
56 Cheikh Dieng "Idriss Deby appelle les pays Africans a se debarrasser du Franc CFA." *Afrik*. Web. August 2015.
57 Mundell. "A Theory of Optimum Currency Areas."

‘keep an eye’ on the member states foreign exchange reserves to ‘ascertain that the requests are made based on a real need.’” [58]

Stemming from a history of kleptocratic governments, this rhetoric is indicative of another reality found within these emerging economies. Unfortunately, many of these members do not carry the credibility of high level decision making, and in response, postcolonial relationships can be perpetuated in the name of good governance and stability[59]. This line of thought is reflected from the 'top down' approach relied on in development projects in SSA, for example, withholding the autonomy of decision making for countries due to a lack of trust. Independent authority over high level decisions has not always been maintained, and the French influence over the CFA Franc Zone is commonly discussed as indicative of a post-colonial relationship that does not trust the abilities of the countries it formerly controlled as colonies in their autonomous decision making abilities.

Martin believes that the convertibility guarantee by France places the members in a position of unnatural and unnecessary dependency on French ties. Especially in light of the required contributions to the operations account, which he claims perpetuates a “paradoxical indebtedness[60]” of developing member states to France. This argument suggests that these countries should be able to exercise their own ability to manage their internal and external resources, rather than surrendering their sovereignty to their former colonizer.

1.5.c. Stable Inflation

A stable inflation rate in this region is heralded as one of the most integral benefits of this union. Additionally, a guaranteed currency provides increased credibility with foreign investors due to the peg with the Euro and agreement with France. As previously discussed, inflation is an important indicator of imbalances across currency unions. To its benefit, the WAEMU has

[58] Guy Martin. "The Franc Zone, underdevelopment and dependency in Francophone Africa." *Third World Quarterly* 8, no. 1 (1986): 205-35.
[59] For more on this topic, see: Hagmann, T., Péclard, D. “Negotiating Statehood: Dynamics of Power and Domination in Africa.” *Development and Change*. Vol 41, issue 4. 539-562. 2010.
[60] Guy Martin. "The Franc Zone, underdevelopment and dependency in Francophone Africa."

experienced a stable inflation rate, apart from the time surrounding the 1994 devaluation. Crediting the stability of the inflation rate to aggressive monetary policy and fiscal discipline, Coulibaly and Davis (2013) find mixed results as to whether or not this stable inflation has benefitted or harmed the economic growth of the WAEMU. In many regards, this stability has enabled these countries to be able to build confidence in attracting capital flows. However, some[61] have argued for a more flexible exchange rate system, which would facilitate greater economic competitiveness.

The stability of WAEMU's inflation rate remains as a substantial benefit when compared with its neighboring countries[62]. Colonized originally by the British and entering into independence around a similar time frame, Nigeria, Sierra Leone and Ghana were all given monetary independence and created their own currencies post-independence. Indicated with blue lines in Figure 1.4, these countries who have independent monetary systems have also experienced a much more volatile inflation rate than that of their neighbors in the CFA Franc Zone.

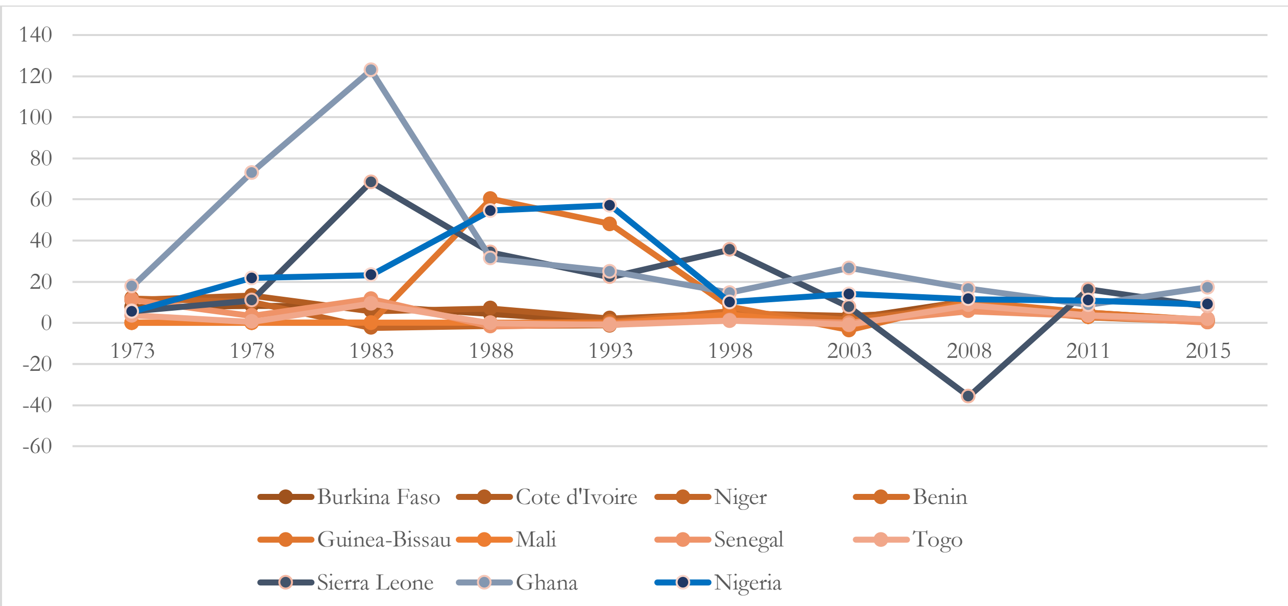

Figure 1.4 Average inflation rates of former British colonies vis-à-vis former French colonies. *Former British colonies in blue, former French in orange and pink.* (World Bank 2016)

[61] For more, see: Levy-Yeyati, Eduardo Levy, and Federico Sturzenegger. "Exchange rate regimes and economic performance." (2001).

[62] See Appendix C.

1.6 Global Imbalances and Membership Costs

Simply defined, global imbalances are "widening current account deficits or surpluses."[63] The presence of global imbalances seems to be a recurring theme in global financial history[64]. Realistically speaking, only in a perfect world would imbalances be able to be eliminated; however, it is important to investigate the presence and persistence of imbalances in light of the rise in globalization. Caused by a variety of structural and cyclical factors[65], the presence of imbalances can offset or even alter business cycles and benefits for members within a common currency area. Defined well by Gros[66], macroeconomic imbalances, for the sake of this paper, refer to "the existence of disequilibria in the external position, i.e. the current account of member countries, *vis-à-vis* each other, rather than to the position of the entire area *vis-à-vis* the rest of the world."

Global imbalances have historically ebbed and flowed; however, when they peak, a financial crisis commonly follows. Divergences in global markets can also cause sustained levels of unemployment, financial recession, and even liquidity and solvency problems, as illustrated more recently through the EMU. Apart from the previously discussed costs and benefits of the CFA Franc zone arrangement, the next section will take a brief look at the European Monetary Union (EMU) as it relates to external imbalances as this is helpful in assessing membership costs within a monetary union.

1.6.a. European Monetary Union

Recognizing the importance of having similar business cycles and patterns of growth, the EMU required states to align themselves with the Maastricht criteria before entering into the Eurozone. However, during the first decade of existence, the EMU experienced a divergence in competitiveness. A simplified explanation for this divergence for North and South countries within

63 Thierry Bracke, Matthieu Bussière, Michael Fidora, and Roland Straub. "A Framework for Assessing Global Imbalances." *European Central Bank*. No. 78. January 2008. 1-51.
64 Ibid. pg. 44.
65 For a more extensive discussion on measuring and projecting global imbalances, see Bracke, T. et al. (2008).
66 Daniel Gros. "How to Deal with Macroeconomic Imbalances?" *CEPS Special Report.* November 2012.

the EMU is that the South allowed wages to increase unsustainably while countries like Germany reined in their costs and maintained competitiveness. When the global financial crisis of 2008 hit, due to the heterogeneous way members had built their growth, members experienced shocks asymmetrically and were unable to mitigate these shocks with traditional mechanisms used by countries with independent monetary policy. Extenuated further by poor fiscal discipline, Greece, for example, faced a monumental crisis of solvency. Due to common membership to a monetary union, the more fiscally responsible countries were called on to bail out their Euro counterparts in order to sustain the Eurozone, causing all the members of the Union to be affected by the crisis of a single member.

These types of imbalances can also have a spillover effect on social issues, such as income inequality and public services. Tensions within intraregional inequalities in income and membership to a common Union has been widely researched, and in a study recently released by Luca Agnello, Giorgio Fazio and Ricardo Sousa[67], they link fiscal adjustments with income inequality, acknowledging the impact to which the membership of a particular monetary union can have on income inequalities across the region. Additionally, Giuseppe Bertola[68], underlined the lack of autonomy for monetary mechanisms for members, arguing that economic integration within the European Monetary Union (EMU) problematized the abilities for national governments to create autonomous policies. In the end, this effected their ability to create and enforce more generous social policies, for example, as a means to compensate for these income inequalities.

These imbalances highlight an integral cost to membership to a monetary union. Despite the plethora of benefits commonly associated with monetary unions as previously discussed, it is important to consider adverse components to membership as well. Members joined on the promise

[67] Luca Agnello, Giorgio Fazio, Ricardo M. Sousa; "National fiscal consolidations and regional inequality in Europe." *Cambridge J Regions Econ Soc* 2016; 9 (1): 59-80. doi: 10.1093/cjres/rsv033
[68] Guiseppe Bertola. "Inequality, integration, and policy: issues and evidence from EMU." *Journal of Economic Inequality*, 8 (2010): 345 – 365

that they will not be held responsible for the bailing out of member states, however this became the very solution that was necessary within the EMU[69]. The disequilibrium which EMU countries have experienced due to the lack of convergence and minimal tools for individual member states to use to adjust to economic shocks underline the potential costs that countries can experience in entering into a common currency union.

1.7 Conclusion

This chapter sought to establish a foundational and literature overview of the intricacies of the CFA Franc Zone, the controversies surrounding the post-colonial relationship between France and members of the WAEMU, Mundell's optimum currency area theory, and variables and costs surrounding membership to a currency union. With such a unique history, a closer look at these post-colonial relationships and the inner workings of the CFA Franc Zone is undoubtedly necessary. Especially in light of the variety of research which has been carried out within this region, this mixed method of an explanatory and illustrative literature review of past research and current implications of the WAEMU was intended as the theme of this chapter. Now, with a broad understanding of the contextual basis for which this study is being applied, the next section will seek to discuss and understand the imbalances found in the WAEMU on a macroeconomic and policy level.

[69] Gros. "How to Deal with Macroeconomic Imbalances?"

Chapter Two

Imbalances in the West African Economic and Monetary Union

2.1 Introduction

This chapter will seek to outline and discuss the divergences found within the CFA Franc Zone using a simple data analysis of macroeconomic factors which effect the countries in this Union. First, by establishing a brief macroeconomic, social, and political introduction to the member states, followed by a qualitative analysis and discussion of simple measures of external imbalances, concluded with a discussion on regional and domestic policy measures and the appearance of disparities in member states as it relates to macroeconomic divergences and responses to policy recommendations.

Comprised of 8 countries in West Africa, the economic, social, and political makeup of the WAEMU is diverse. Inspired by Healy[70], this table is meant to provide a helpful macroeconomic overview and introduction to the discussion revolving around this region.

WAEMU	Population*	GDP per capita**	Major export*	National poverty rates **	Regime type***	Freedom Ranking****
Benin	10,741,458	$840	Cotton	40.1%	HR	F
Burkina Faso	19,512,533	$640	Gold, Cotton	40.1%	HR	PF
Côte d'Ivoire	23,740,424	$1,420	Cocoa, Oil	46%	AR	PF
Guinea-Bissau	1,759,159	$590	Cashews	67%	AR	PF
Mali	17,467,108	$760	Cotton, Gold	45%	HR	PF
Niger	18,638,600	$390	Uranium, Cotton	48.9%	AR	PF
Senegal	15,129,273	$980	Gold, Fish	46.7%	FD	F
Togo	7,304,578	$540	Petroleum, Cotton	55%	AR	PF

Table 2.1 WAEMU Overview. *Data from the *CIA World Factbook*, most recent estimates between 2015-2017. **Data from *The World Bank*, most recent estimates from 2015, current USD. National poverty rates include rural poverty, which is in some countries, 90% higher than urban. ***Data from *Economist Intelligence Unit* 2016 rankings. Key to Economist Intelligence Unit Democracy Index measures: DEM= Democracy; FD = Flawed Democracy; HR = Hybrid Regime; AR = Authoritarian Regime (All WAEMU countries considered an 'AR' were considered 'partial AR') ****Freedom House 2016* ranking key: F = Free; PF = partially free; NF = not free.

[70] Conor Healy. "EMU: Lessons from the CFA zone." Paper presented at EUSA 8th International Biennial Conference. March 2003.

2.2.a. Population and Poverty

Looking to national poverty rates, population size, and GNI per capita income levels provide a helpful understanding for where individual members stand relative to other states within the Union. The relative growth that this region has experienced, averages between 5% and 6% GDP annually, which seems like a positive step towards development. However, these eight countries still contain extraordinarily high rates of poverty, with absolute poverty rates increasing since 1990. Laurance Chandy[71] explains this continent-wide trend as being attributed to population growth which has resulted in an increase in the number of those in poverty, as sub-Saharan countries have the highest birth rates in the world. In other words, while countries are getting richer, their population is vastly outpacing this economic growth. Additionally, Chandy points to the rural-urban imbalance, as the urban regions in which economic growth occurs versus the rural areas where much of the poorest live. This imbalance is also reflected in a World Bank[72] report from 2016, which suggests that although the middle and low income classes benefitted from their countries economic growth, the most fragile populations actually increased in size. Further symptomatic of uneven progress within these countries, the same report found that the profile of the average poor in SSA remain in primarily rural, large families, in agriculture based communities.

2.2.b. Demography and Poverty: Population Rising

This Union is comprised of one of the most disadvantaged and underdeveloped regions in the world. At 389 million individuals, sub-Saharan Africa holds the largest population in poverty[73]. Social development indicators consistently fell in this region between 1990 and 2007, with the average drop on the UNDP's Human Development Indicator yearly worldwide rankings being 20 spots, with Côte d'Ivoire dropping 40 spots in these worldwide rankings.

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[71] Laurence Chandy. "Why is the number of poor people in Africa increasing when Africa economies are growing?" *Brookings Institute: Africa in Focus.* May 2015. Web.
[72] Kathleen Beegle, Luc Christiaensen, Andrew Dabalen, Isis Gaddis. "Poverty in a Rising Africa: Africa Poverty Report." *The World Bank Group*. 2016.
[73] The World Bank, World Development Indicators. *Poverty and Shared Prosperity* (2016).

A 2015 report from the World Bank indicated that the SSA region held a 20% share of global poverty in 1990, to now currently overshadowing the rest of the world by holding 50% of the global poor in 2015[74]. The same report declared the share of the population living under $1.90 a day in SSA countries fell from 56% in 1990 to 42% in 2015; however, the actual number of those living under $1.90 a day, increased from 287 million in 1990, to 388 million in 2012[75]. Interestingly, the only two countries which have experienced an increase in their relative poverty rates and not a decline, since 1990, are Guinea Bissau and Côte d'Ivoire[76]. As discussed later in this chapter, these two members are the only countries which have failed to consistently meet the convergence criteria.

Despite positive growth trends in the economies across the region of SSA, this growth has yet to trickle down to a significant impact on absolute poverty rates. Poverty is decreasing for many in SSA countries; however, in absolute terms of poverty, this growth is unequally distributed across populations, with the most vulnerable, typically rural, and fastest growing populations remaining in the margins. Due to greater family planning tools available to women in urban areas, rural populations outpace fertility rates of their urban neighbors by 2 to 1 in some countries[77]. This booming growth of the rural population and a slowing of fertility rates in urban centers affirm the prevalence of Chandy's concerns of the impact of a growing populace and increasing poverty rates within SSA countries.

2.2.b. Economies and Exports

As shown in Figure 2.1, these countries rely extraordinarily on commodity products to support their economies. For example, 80 percent of Guinea-Bissau's net exports are comprised of cashew crops[78]. This heavy reliance on commodities is what many scholars and international organizations blame in part to the slow development of this region. Due to the notoriously volatile

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74 World Bank Group. *Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change*. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0669-8
75 This 2015 report carried projections as well, however cited that the 2012 number was the most reliable.
76 See: International Monetary Fund. "West African Economic and Monetary Union Country Report." *IMF*. March 2016. Pg. 5.
77 Staff. "The Urban-Rural Divide in Health and Development." *Population Reference Bureau*. Data Sheet. 2015.
78 "Guinea-Bissau." The World Factbook. *Central Intelligence Agency*, 2016. Web.

nature of commodity products, they avail themselves to a variety of external and domestic shocks when commodity prices decline or face abrupt changes. Cotton[79], for example in 2011 peaked globally at $229.67 a pound, only to fall to $65.46 in 2016. A IMF[80] report from 2016 shared this concern, and cautioned that the subdued growth in this region is directly correlated to weak global commodity prices.

2.3. Wood Methodology

Richard Wood's macroeconomic analysis[81] of imbalances within the EU provide a helpful and simple methodological framework for this study. Although there are a wide variety of measures that could be used for this type of study, especially for emerging economies, the measures used in this chapter are that which are commonly used for analyzing global imbalances[82]. Wood, as this paper also seeks to reflect in reference to the CFA zone, believes that external imbalances must be balanced within the Eurozone in order to encourage and sustain long term economic growth and convergence among members. Using the previously discussed measures, Wood constructs a table to illustrate divergences and provides a ranking system of the averages across the region. The following section will seek to reflect this similar method in order to better understand where imbalances rest in the WAEMU.

2.4. Macroeconomic External Imbalances

To provide a simple, macroeconomic approach to measure external imbalances via available data, the eight WAEMU member countries current account balances and external debt relative to each country's' GDP are used to create a ranking system. Similar to the one found in Wood's framework, which averages both of these measures to produce a country ranking of overall external imbalances. Due to current account balances being heavily influenced by the fluctuation of trade

[79] International Monetary Fund. Primary Commodity Prices. 2016
[80] International Monetary Fund. "West African Economic and Monetary Union: Country Report." *IMF*. March 2016.
[81] Wood. "Eurozone Macroeconomic Framework: Reducing Internal and External Imbalances."
[82] For more on this model, see: Metaxas, P., Weber, E. "An Australian Contribution to International Trade Theory: The Dependent Economy Model." *The University of Western Australia*. May 2013.

dependent on booms and bust cycles of these commodity reliant economies, the units reflect the average of eight years of data. Because of the lack of available consistent information for countries in the WAEMU, the data used in this table are between 2005 and 2013, since these years are the only range which provided consistent and cohesive data from each country.

	CAB*	Rank	External Debt**	Rank	**Average Rank**
Benin	-7	5	23.2	1	**3**
Burkina Faso	-6.8	4	24.1	2	**3**
Côte d'Ivoire	2.2	1	54.5	7	**4**
Guinea-Bissau	-5	2	127.7	8	**5**
Mali	-6.2	3	30.4	4	**3.5**
Niger	-14.9	8	31.3	5	**6.5**
Senegal	-9.2	7	29.7	3	**5**
Togo	-8.3	6	49	6	**6**

Table 2.2. Macroeconomic External Imbalances. *Data from the World Bank and Banque de Franque.* *Current Account Balance as a percentage of GDP based on average values between 2005 and 2013. **Percent of GDP based on averages between 2005 and 2013 due to the IMF debt management program for heavily indebted countries beginning in 2005, and availability of data.

According to Wood's ranking system, three groups emerge: Niger and Togo hold the lowest ranking, Senegal, Guinea-Bissau, and Côte d'Ivoire are in the middle, and finally, Benin and Burkina Faso are placed in a third grouping. Here we can see how these countries align with Woods' similar trend that he discovered in his rankings. The two groups with the most extreme imbalances are the middle and lowest groups, while the countries demonstrating the greatest equilibrium between these two extremes, rank the highest in these averages. This trend is further reflected in Figure 2.3 where we can most evidently see a divergence between Côte d'Ivoire and Niger.

An important external variable that has heavily affected the indicators[83] of external debt across the WAEMU is the Heavily Indebted Poor Countries (HIPC) initiative from the International Monetary Fund. Beginning in 1996, this program set completion points in order for each member to reach a stage at which their country would become eligible for complete debt relief

[83] See Appendix B.

from the International Monetary Fund, the International Development Association of the World Bank, and the African Development Fund. These members, in order to achieve completion in the program and obtain debt forgiveness, had to exercise reforms in macroeconomic policy, implement a poverty reduction strategy, and demonstrate public expenditure reforms[84]. This program reduced the external debts of all of these member states extraordinarily. Guinea-Bissau, for example, maintained an external debt ratio to GDP of 382 percent in 2004, to its 2013 rate of 24 percent[85]. This assistance program has greatly affected the data in the past twenty years of the WAEMU. Because of this, and the unique nature of developing countries and foreign aid, Table 2.2 does not fully reflect the data in which Wood would intend to use with this framework.

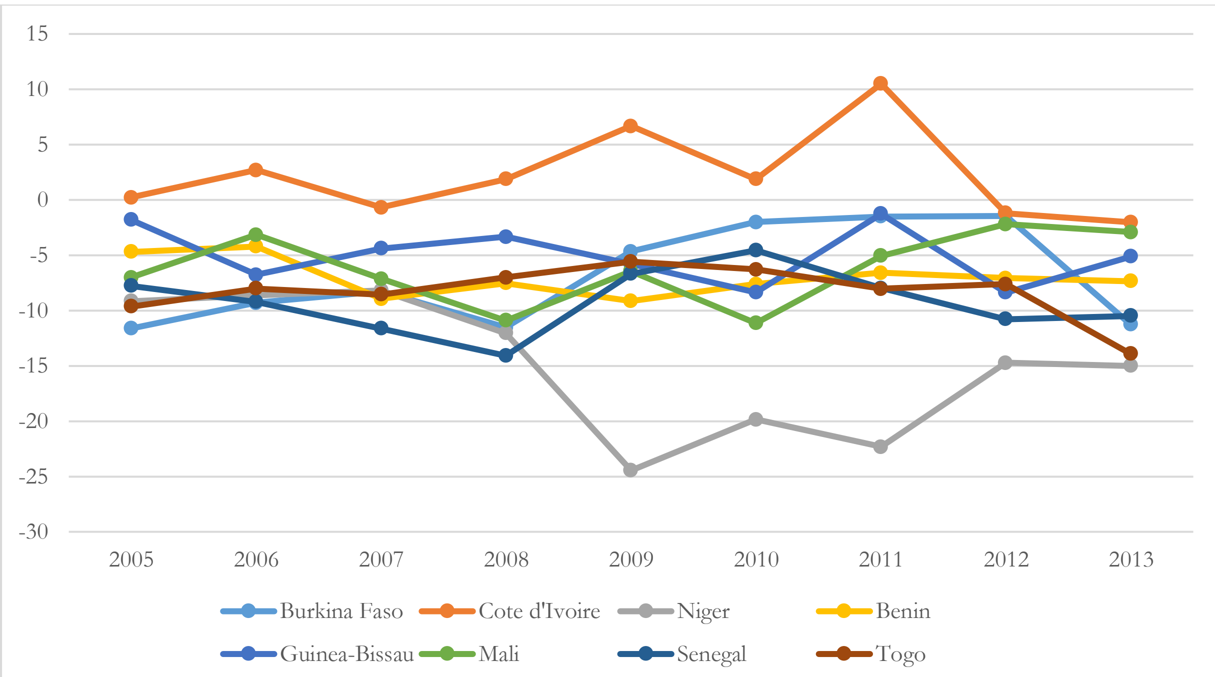


Figure 2.3 Current Account Balance (% of GDP) *Source: World Bank 2016.*

However, this table still shares valuable insights from the WAEMU. First, as indicated in Table 2.2, over an eight-year average, Niger, Senegal and Togo all carried a negative account balance that was larger in comparison to the average of the rest of the members, Niger showing especially wide divergences from the rest of the members. Shown in Figure 2.3, the more significant divergences occurred during the global financial crisis between 2008-2009, which implies that there

[84] International Monetary Fund. "The Multilateral Debt Relief Initiative." *IMF Fact Sheet.* 2015.
[85] Banque De France. External Debt to GDP ratio. 2016.

were greater divergences experienced during the financial crisis than currently experienced across the region, most significantly between Niger and Côte d'Ivoire.

This region is not progressing towards a general trend of convergence, as indicated by this brief discussion on trade balances, external debt, and current account balance. Reflecting on these indicators, David Fielding[86], a prominent researcher of the CFA Franc Zone, affirms this trend. In a study published in his 2005 book, *Macroeconomic Policy in the Franc Zone*, Fielding suggests that although WAEMU members do have periods of convergence between 1980 and 2001, these periods of convergence are short lived. Next, we will see how these divergences persist as they relate to member responses to regional and domestic policy recommendations and implementation.

2.5 The Role of Institutions

Many call for a strengthening of institutions[87] to facilitate policy harmonization and greater regional convergence. As discussed previously in the first chapter, in light of making monetary policy decisions, it is vital to acknowledge the role in which institutions and political commitment to policy changes have an effect on the success of monetary arrangements such as this currency union. As cited previously, a measure not commonly used in considering economic imbalances is the political environment in which these markets exist. Returning to the previous discussion on Mundell, it is important to discuss the political convergence that needs to occur to align an optimal atmosphere for a currency union.

The timing and implementation behind which political actors can make decisions impacting their domestic policy can also vary widely. As Seck[88] found, one of the greatest issues facing the growth and convergence of this region lies within the abilities for individual member states to collaborate with one another and comply with criteria set forth by the monetary authority. For example, in the years 2004 to 2006, where within the eight regional policy recommendations put

[86] David Fielding, ed. *Macroeconomic Policy in the Franc Zone*. Palgrave Macmillan, 2005.
[87] See: Loureiro, J., Martins, M., Ribeiro, A. "Anchoring the Euro (and Grouped Together)? The Case of African Countries." *The Journal of African Economies*. August 2011.
[88] Diery Seck "Fifteen years of WAEMU: results and strategies for the future." In *Wealth through Integration* pp. 19-42. Springer New York, 2012.

forth by the WAEMU for its members, not a single criterion was complied with by all of the members. Due to the structure of a monetary union, it should not be a surprise that instances of domestic fiscal policy are misaligned due to it being one of the main domestic instruments that members can use to adjust for shocks[89]. However, whatever the cause of these misalignments, either in reflecting the realistic nature of the goals or the lack of capacity by the central governing authority of the Union to institute and enforce policies for its members, the abilities of each member and the institutions that lead them to disregard convergence policies provided by the Union is an important variable to consider.

2.5.a Regional Policy Responses

Convergence is an integral aim of currency unions. If members are aligned, then the hope is that there is a greater ability for countries to respond similarly to asymmetrical shocks, rather than exacerbating greater imbalances from the shock. Illustrated through the Eurozone example of the Maastricht criteria working to align members on a variety of macroeconomic measures, these measures illustrate the necessity for a coordinated policy approach to work to the benefit of all the members in a union to aid in gaining better convergence, economically and institutionally[90].

In considering policy recommendations and mechanisms put in place by the governing body of the WAEMU, it is important to explore what these policy responses are and the response of members to these recommendations. When the CFA Franc Zone was created, monetary policy alignment was not a crucial consideration. However, despite maintaining undeniable asymmetries[91], since the 60's when this Union began, there has been a concentrated effort on the behalf of the central bank of these West African members, the Banque de Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the governing body of the WAEMU to provide policy plans and programs

[89] Fielding. "Macroeconomic Policy in the Franc Zone."
[90] Guiseppe Bertola. "Policy Coordination, Convergence, and the Rise and Crisis of EMU Imbalances." *Economic and Financial Affairs*. European Commission. 2013.
[91] Paul R. Masson. "Currency unions in Africa: is the trade effect substantial enough to justify their formation?." *The World Economy* 31, no. 4 (2008): 533-547.

for member states to implement in order to promote growth and greater intraregional convergence within this union.

2.5.b. Programme Economique Régional

A variety of programs and initiatives have been launched with the intent of helping states reach greater integration, but these programs frequently end prematurely or fall short of expectations due to a lack of institutional motivation or funding. One such regional program aimed at achieving greater intraregional growth and collaboration was the Programme Economique Régional (PER), or the Regional Economic Program initiated in 2004. This program was created as an effort to collaboratively respond to the higher demand facing this region due to population growth, which is a growing challenge to these countries' weak infrastructure, low industrial base, and muted human development indicators.

Focused on integration and structural projects for all member countries, PER aimed to reinforce and accelerate synergy between members. It was comprised of two phases, PER I from 2006 to 2010, which implemented 63 projects at the cost of 3.47 billion CFAF, and the second, PER II, between 2010 and 2016, that consisted of 100 projects. This initiative focused on building and updating transportation networks and roads, modernizing over 7,000km of railway line, and developing over 80 million hectares of arable land in the WAEMU. In order to facilitate greater mobility of transportation of goods, land studies, weighing stations, and modern road structures were created as a part of this project. These projects were all aimed at improving the efficiency of member's supply chain in order to provide for their domestic national needs and pursue a higher rate of regional trade, at the total cost of around 229 billion CFAF.

Despite the promises of PER and its achievements, it has not delivered on all of its promises for the region. Falling short of its intended results, Zabeirou Moussa, a Nigerien writer, believes[92] that its ultimate success was hampered due to "weak involvement of the private sector,

[92] Zabeirou Moussa. "Programme Economique Regional (PER) de l'UEMOA: Des projets integrateurs de developpment de l'espace communautaire." *Le Sahel*. Web.

lack of efficient works in space, significant need for financing, [and] limited capacity of stakeholders [or countries] to absorb resources given" which is indicative of the political and socioeconomic factors facing regional policy plans that can be put forth with the best intentions, but in reality struggle to be successfully implemented within the WAEMU.

2.5.c Pacte de Convergence, de Stabilité, de Croissance, et de Solidarité

As an effort to facilitate integration and avoid the imbalances stemming from asymmetrical shocks, in 1999, all the member states of the WAEMU agreed to a pact which established convergence criteria for members to attain by 2002. This pact, among a variety of public finance reforms, most notably, requested for members to: "maintain a zero or positive basic fiscal balance, with the goal of public debt not exceeding 70 percent of GDP[93]; maintain an inflation rate below 3 percent, a cap on civil service wages of 35 percent; among others[94]." The pact threatened members who did not achieve these goals by 2002, with the penalty of "moral suasion in the form of the publication of findings, the withdrawal of West African Development Bank financing, to the outright suspension of central bank financing."[95]

In early 2000, the IMF[96] reported that due to this agreement, the measures member states must pursue in order to make these required adjustments distributed inequitably and experienced heterogeneously across all of the members. Hampering the appeal for members to pursue these measures on a national level, due to these inequitable costs. While fiscal discipline is the goal, presumably, by all members in the union, the measures for adjustment for the asymmetrical external debt burdens of each member varies widely by member state. Beginning from entirely different levels, the IMF reported that "small adjustments are called for in Benin and Senegal, [while] other countries, such as Togo, Mali, and Niger, would have to make substantial efforts in order to comply

[93] See Appendix B. In light of the previously discussed HIPC program, a fairly positive convergence has been attained in this criteria since 2005-06.
[94] Ousmane Dore, Jean-Claude Nachega. "Budgetary Convergence in the WAEMU: Adjustment Through Revenue or Expenditure?" *IMF*. Working Paper. June 2000.
[95] Ibid. Pp. 4.
[96] Ibid.

with the convergence norms."[97] Blanket reform policies such as these, mandated for all members of the Union, reflect a form of inequitable cost for members. Because of a lack of compliance, this Pact was further amended and the deadlines extended into 2003, 2006, 2009, 2013 and now from 2015 to 2019.

A surveillance mechanism was introduced in 2002, which assesses on a yearly basis the level of convergence by members in light of four central convergence criteria and two second tier economic and financial indicators[98]. The four critical criteria are the previously stated fiscal measures of: a surplus maintained in basic account balances, overall public debt to GDP ratio not exceeding 70 percent, avoiding the accumulation of arrears, and the average consumer price inflation maintained at or below 3 percent. Accumulation of arrears was eliminated in 2015, but compliance will still be tracked until its consideration ceased. As Figure 2.4 indicates, the non-compliance of members has been consistently maintained, with the exception of the inflation rate threshold. This has been the only measure which has maintained the highest compliance across all members of the WAEMU since the introduction of these convergence criteria.

WAEMU: Compliance with new convergence criteria
(Number of Countries Non-Compliant with Criteria)

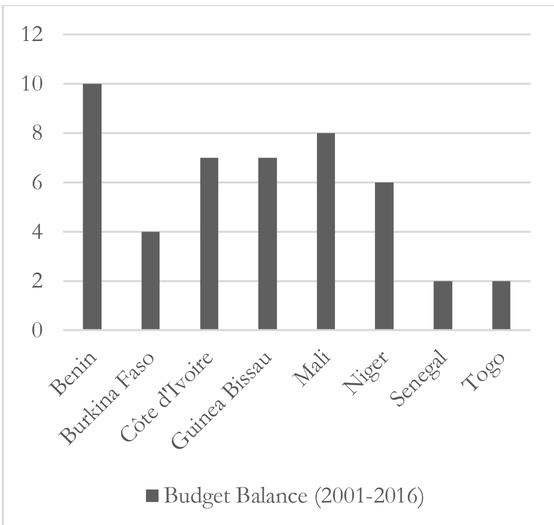
	2011	2012	2013	2014 Est.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
First-order criteria									
Overall Balance/GDP (≥ - 3 percent)	5	2	3	4	6	6	5	4	2
Average consumer price inflation (≤ 3 percent)	5	3	0	0	1	0	0	0	0
Total debt/GDP (≤ 70 percent)	0	0	0	0	0	0	0	0	0
Second-order criteria									
Wages and salaries/tax revenue (≤ 35 percent)	5	6	5	5	5	5	5	5	4
Tax revenue/GDP (≥ 20 percent)	8	8	8	8	8	8	7	7	6

Sources: WAEMU; Central Bank of West African States (BCEAO); and staff estimates and projections.

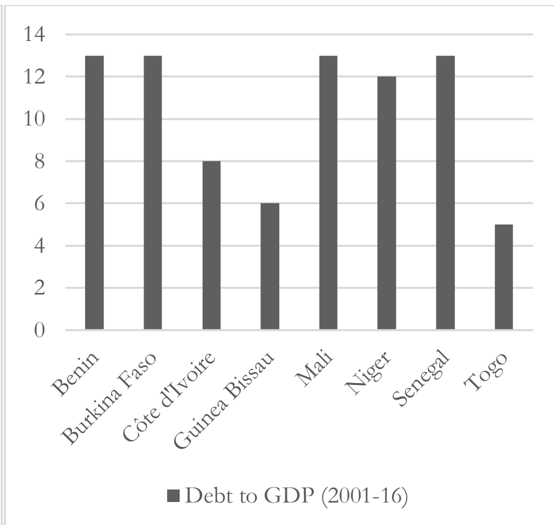
Figure 2.4. WAEMU Compliance with new convergence criteria. *Source*: (IMF 2016)

[97] Ibid. Pp 5.
[98] Claude N'Kodia. "Les pactes de convergence en zone franc: quels criteres et quels objectifs en zone CEMAC?" *Revue Francaise d'Economie*. 2011/2

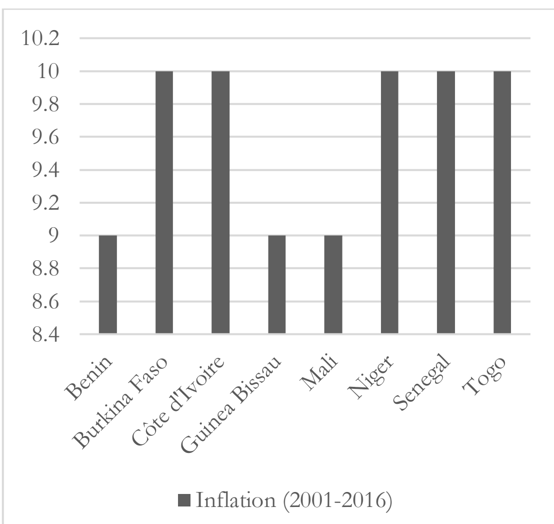
In Boxes 1.1-1.5[99], the total number of times a member attained convergence per year within a 15-year time span is given to understand which members have attained compliance more consistently than others. In these boxes, it is evident that few members show consistent compliance with the convergence criteria's primary criterion and when looking at secondary criteria, divergences between countries widen. For example, taking the criteria on public sector wages, between 2004 and 2016, Burkina Faso and Côte d'Ivoire did not attain this standard once, with Benin and Guinea Bissau only reaching this objective twice in 12 years.



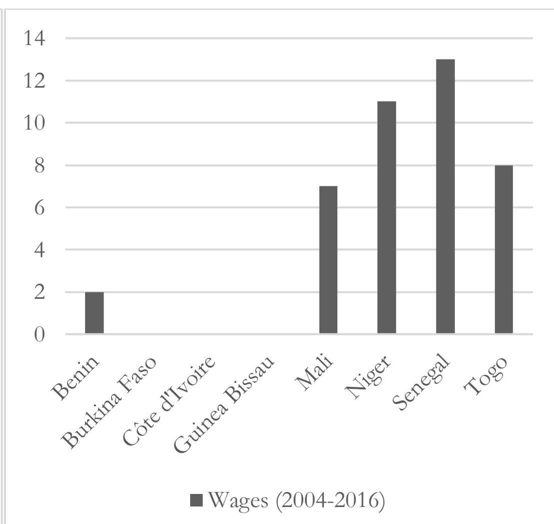
Box 1.1 Overall Budget Balance



Box 1.2 Debt to GDP (≤ 70 percent)

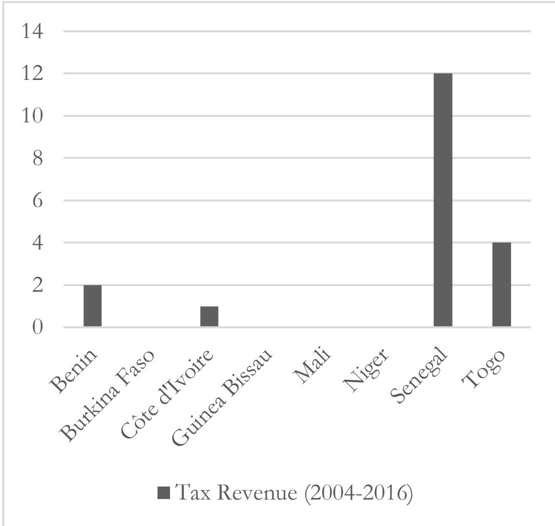


Box 1.3 Inflation (≤ 3 percent)



Box 1.4 Wages (≤ 35 percent)

[99] Authors own calculations using UEMOA and BCEAO Annual Reports 2004-2016.



Box 1.5 Tax Revenue ($\geq$ 20 percent)

The consistent failure of some countries, most notably Guinea-Bissau and Côte d'Ivoire, and fractionally less Togo and Burkina Faso, is most explicit in the second order criteria of tax revenues. In 12 years, only four members completed this criterion at least once, with Côte d'Ivoire, Benin, and Togo reaching this four times or less. Senegal, by far, had the most impressive completion of the convergence criteria, maintaining tax revenues greater than 17 percent for twelve consecutive years, rapidly outpacing its neighbors. Senegal, across all five criterion discussed here, undoubtedly had the highest performance in rate of completion, averaging as the highest, most consistent performer in every group, except for the balanced budget criteria.

On a regional level, these indicators reveal the failure of much of the Union's members to meet the convergence criteria originally set in 1999[100]. From this data, we can gain a better understanding of a particular divergence between members who comply consistently with policy recommendations, and those who consistently do not. This consistent disregard by some members highlights the failure of any sort of enforcement or penalizing mechanism to compel states to

[100] One of the criteria that most member states perpetually fail to attain is the twenty percent threshold for tax revenues. The Commission indicated that due to special niches and exemptions in domestic tax codes, these members have sustained a lack of growth in regards to income from domestic tax revenues. Stating that due to tax exemptions rising, this has directly hindered the ability for increased revenues to be absorbed domestically. Senegal, for example in 2012, lost over 20 percent of tax revenues and nearly 4 percent of GDP as a result of tax exemptions (BCEAO 2012).

pursue compliance with these measures. A shortcoming which reflects a greater issue of fiscal sovereignty on a domestic level, discussed in greater length in chapter three.

A Widening Gap

The gap between the weaker poor states and the stronger wealthy states in this Union only continues to widen. In the past 15 years, the economic divergence between rich and poor countries has not improved, which reveals the incapacity of these weaker members to catch up to their stronger neighbors who are quickly outpacing their growth. Niger and Senegal, the Union's smallest and second largest economy respectively, provide a good illustration of this difference. Niger's GDP per capita over 13 years, between 2002 and 2015, grew from $334 to $383, or by 14 percent. While Senegal's GDP per capita also grew, but at a much quicker 19 percent pace during the same time period. Additionally, despite instability between 2001 and 2012, Côte d'Ivoire averaged 15 percent growth, while Guinea Bissau only averaged 9 percent GDP per capita growth[101]. Not to negate this positive growth for both countries, at this current pace *ceteris paribus*, the weaker members of the WAEMU will take years to catch up to their peers.

One study found when calculating the speed towards convergence for WAEMU members in regards to per capita income, members had an "average speed of 0.72% per year…[meaning] countries will converge on the same level of per capita income after nearly two centuries."[102] Furthermore, this same study found that the time after the convergence pact was created, the rates of convergence of living standards for member states have slowed, meaning a continued disequilibrium between the poorest and richest in this monetary union[103]. Clearly, not all members have to be equal in size, however these numbers do indicate a divergence of competitiveness and growth between members.

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[101] The World Bank, World Development Indicators (2016).

[102] William Gbohoui. "Economic Integration in WAEMU: Will the Multilateral Monitoring Mechanism Lead to Growth and Welfare Convergence?." Presented at the African Economic Conference of the African Development Bank. Johannesburg, South Africa. October 2013. pg. 8

[103] Ibid, pp. 9

2.5.d. Domestic Policy Responses

Since region-wide responses have been established previously, the following section provides a brief overview and example of domestic mechanisms which members employ in the absence of the access to standard measures that independent countries can use to freely adjust their economy to their situations.

In the case of the global financial crisis, the WAEMU commodity based markets suffered greatly and created ripple effects which decelerated remittances back into member states. Reflective of an overall global trend, the impact of the 2008-09 financial crisis slowed overall economic growth as well. Traditionally, in the case of asymmetrical shocks and when domestic competitiveness is undermined, countries that have a flexible exchange rate with their own currency can depreciate their currency in order to increase the competitiveness of their exports, as an effort to increase demand. However, countries who share a common currency and do not have this mechanism, may need to turn to alternative domestic monetary policies in order to carry out measures of internal devaluations. This inability to individually react relates back to the previously discussed benefits and costs to membership to a common currency area.

In the face of the global financial crisis, in order to buoy this region, foreign aid flowed in. These funds are heavily influential sources of revenue for countries across the region, and after the financial crisis, official support was reported to range between 2 and 39 percent of GDP[104] per country. In addition to foreign assistance, post-crisis, organizations such as the International Monetary Fund, recommended individual members to pursue a variety of domestic measures in the form of fiscal expansion. Created through governments maintaining their planned levels of public expenditures despite falling revenues. Oritz and Cummins[105] discuss these austerity measures from the global financial crisis, finding that SSA countries experienced two phases of fiscal movements, first by implementing reactionary fiscal stimulus packages to buoy their markets, which led

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[104] Johannes Mueller, Irene Yackovlev, and Hans Weisfeld "The Global Financial Crisis: Impact on WAEMU Member Countries and Policy Options." *IMF*. Staff Position Note. SPN/09/16; July 2, 2009.
[105] Isabel Ortiz and Matthew Cummins. "Austerity Measures in Developing Countries: Public Expenditure Trends and the Risks to Children and Women." *Feminist Economics*. Vol. 19, No. 3, 55-81. 2013.

eventually to widespread reduction in spending in a second phase. On average the highest public cuts were in the form of subsidies, public utilities and food, threatening the most harm to vulnerable populations.

Using Oritz's and Cummins' research, we can ascertain irregularities between domestic policies implemented by members of the WAEMU in the period between 2008 and 2012 as a means of adjustment for the crisis. These fiscal adjustments are divided into eight measures of: wage bill cuts or caps, reduction or elimination of subsidies, general social protection measures, elderly pension reform, increase of wage bill, increase or introduction of subsidies, expansion of social protection, and an introduction or expansion of pensions for the elderly. Within these groupings three groups emerge between countries who focused only on public expenditure cuts, those who mixed policy responses, and those only which only focused on increasing public spending. Burkina Faso, Guinea Bissau, and Côte d'Ivoire only implemented measures that would cut or cap wages and reduce or eliminate subsidies. Alternatively, Benin, Mali and Togo mixed policies between cutting wages and increasing social protections. Finally, in the third group, Niger and Senegal only focused on mechanisms that increased government expenditures, such as increased wages and expanded social protections. Oritz and Cummins' research provides a helpful example that is indicative of how domestic policy measures are implemented heterogeneously throughout the CFA Franc Zone. This misaligned policy approach deters the path of members from obtaining regional convergence.

Indicative of this imbalance and unique to this development context, Fielding and Shields[106] also saw the WAEMU members' response rate to financial shocks as asymmetrical, and noted that timing and response rates vary widely across member countries in the Franc Zone as a whole. To use developed economies as an example, EMU members' responses to economic shocks are immediate, which causes these shocks and their spillover effects to dissipate much more quickly than cases that are not promptly addressed. Unfortunately, in the case of the WAEMU, as Fielding

[106] David Fielding and Kalvinder Shields. "Is the Franc Zone an Optimal Currency Area." *The Centre for the Study of African Economies PS03* (2000). Pp. 23

and Shields found that these members did not quickly address economic shocks on a domestic level. Indicating that this scenario provides a problem in not only the lack of convergence between the members, but also in the detrimental spillover effects which can occur when policy responses are fragmented and sluggish across a region.

2.6. Union Economique et Monétaire Ouest-Africaine: Authority and Reports

This frustrating disparity between political motivation and actual policy implementation was reflected this past April at the yearly meeting of the Conference of Heads of State and Governments[107] of the WAEMU, took place in Abidjan, Cote d'Ivoire. In a speech delivered by Amadou Ba, the Minister of Economy, Finance and Planning of the Republic of Senegal, and President-in-Office of the Council of Statutory Ministers, he reported on a variety of policy measures, such as PER, and spoke of the future policy focus of the WAEMU. Focusing on continuing efforts of integration and modernization, Ba states that "attention for the future will be focused on a strategic plan for updating the regulatory framework, the financial market allowing the attraction of investors, both in addition to improving the availability of quality financial information" [108] for the members and the Union as a whole.

In another speech[109] at this meeting the President of Cote d'Ivoire, Alassane Ouattara, recognizes issues plaguing the future of the WAEMU. Ranging from markets reliant on volatile commodity prices to a lack of policy harmonization across the members, Ouattara cites these issues as barriers to coordinated growth across member states. At a September 2016 meeting of the Ministers of Finance of the CFA Franc Zone, they also acknowledged[110] concerns of "economic and social inclusion…preserving the sustainability of public finances" and the widespread concerns of

[107] The official title is: Conférence des Chefs d'Etat et de Gouvernement de l'Union Economique et Monétaire Ouest-Africaine

[108]Amadou Ba. Speech at the Conférence des Chefs d'Etat et de Gouvernement de l'Union Economique et Monétaire Ouest-Africaine. Abidjan, Cote d'Ivoire. 10 April 2017.

[109] Ibid.

[110] Réunion des ministres des finances de la Zone franc. *UEMOA*. Press release. Paris, France. September 2016.

"heterogeneous economic performance by member States and their corresponding vulnerabilities." In response to these vulnerabilities, at this September meeting, policy leaders emphasized the importance of the convergence criteria, but also recognized members' difficulty in attaining the criteria set forth.

Considering the discourse of those leading the WAEMU and its central bank, indicate the efforts by the central governing authority to encourage participation and integration of member states. Despite these efforts, they cannot guarantee the participation of their members, which illustrates the opinion shared by many scholars and institutions focused on this region. This uncertainty and lack of ability for the central bank to enforce or guarantee implementation of policy measures, creates a cyclical pattern of members to waver between non-compliance and compliance. Illustrated through the 1999 convergence criteria deadline being extended by two decades. Almost twenty years from when this was first established, there is hardly a general trend towards regional convergence as a whole.

2.7 Conclusion

Evidently, there is a divergence between member's policy and economic alignment, which is most striking after gaining an understanding of the macroeconomic and policy foundation of this region. These differences discussed in this chapter contribute to misaligned business cycles, decreased competitiveness, and vulnerabilities to asymmetrical shocks that can impact the entire region. Before the 1999 convergence reforms, the prevalence of members pursuing conflicting goals was most likely higher; however, inabilities to cohesively meet convergence criteria indicate a continued misalignment between states. These continued disparities could be caused by the nature of the large and growing countries *vis-à-vis* weaker emerging countries sharing membership to the same monetary union and regional policies. In order for all of the members to benefit from the full rewards of a currency union, greater economic and policy integration must be attained[111]. However, this is most likely to occur at the cost of a certain level of member's individual independence. This will be a topic that will be discussed in greater length in the final chapter.

[111] David Fielding. "Asymmetries in the behavior of members of a monetary union: a game-theoretic model with an application to West Africa." *Journal of African Economies* 5, no. 3 (1996): 343-365.

Chapter Three

Côte d'Ivoire Case Study

3.1. Introduction

Convergence is a critical goal for monetary unions. And as explored in this thesis, despite springing from homogenous principles, the institutional differences experienced across the Union[112] have aided in thwarting this desired convergence. As previously established through observing macroeconomic imbalances and the convergence criteria, Côte d'Ivoire maintains a considerable amount of disparities *vis-à-vis* the remaining members of the Union. This section will seek to discuss Côte d'Ivoire, and it's past political and economic instability and substantial economic participation in the WAEMU, in order to provide an example of how the actions of a single member can impact the entire Union. From this brief case study, implications of how these relationships between individual members can affect the competitiveness and growth of the entire Union will also be shared.

3.2. Côte d'Ivoire

The Ivoirian crisis, lasting between 2001 and 2011, demonstrates how costly it can be for members to maintain membership to a common monetary union in emerging markets when socio-political stability and integration is not guaranteed. Scholars[113] have pointed to the spillover costs of failed states in hampering their neighbor's growth by at least 0.6 percent annually. In studying Côte d'Ivoire and this crisis specifically, an IMF analysis[114] estimated that an increase of domestic stability in Côte d'Ivoire by 1 percent equated in economic growth of 21 percent for CFA members in the

[112] Differing levels of financial development, democracy, political instability and corruption. For more see: Asongu, Simplice. "Real and Monetary Policy Convergence: EMU Crisis to the CFA Zone". *AGDI Working Paper.* January 2012.
[113] Lisa Chauvet, Paul Collier, and Anke Hoeffler. "The cost of failing states and the limits to sovereignty." *Fragile States: Causes, Costs and Responses* (2007): 91-110.
[114] Dorothy Engmann, Mr Ousmane Dore, and Benoít Anne. *Regional Impact of Cote D'Ivoire's Sociopolitical Crisis: An Assessment.* No. 3-85. International Monetary Fund, 2003.

region. This correlation clearly indicates the relevancy of spillover costs onto the surrounding members of the CFA zone.

3.2.a Conflict and Instability

The political and civil crisis that overtook this nation for more than a decade, undoubtedly impacted the economy of Côte d'Ivoire to a large degree, and also provided a situation in which member-specific issues of fiscal discipline and financing needs arose within the WAEMU arose. Sparked initially by a military coup in 1999, which eventually resulted in an uprising that divided the nation in half in 2002. This division was largely focused between two ethno-religious groups, Muslim rebels in the north and the Christian government-held south. This propelled a conflict that persisted until peace agreements were signed in 2007. Yet, during a 2010 presidential election, there was continued spurts of violence. This stopped when the current President Ouattara arrived to power in 2011, following a tumultuous and violent campaign. Despite concerns of renewed unrest, Ouattara was reelected again in 2015 in a relatively peaceful election. Since the election, political stability has been maintained, despite looming concerns over rising inequalities and sporadic terrorist and rebel uprisings.

The ability for members to gain the maximum benefits from the Union rely heavily on the political will of the bureaucracies which are positioned to enact country-wide changes. In rising from this tumultuous time and looking towards the future, there are still mounting concerns as to whether or not this motivation will be reflected by leaders in Côte d'Ivoire. This sentiment is reflected by a risk assessment analysis[115] by the IMF in 2016, which holds the political will of member states in the CFA zone as being responsible for delaying reforms at a country and regional level, citing weak implementation and bureaucratic hurdles as risks to growth and financial stability.

[115] Engmann et al. "Regional Impact of Cote D'Ivoire's Sociopolitical Crisis: An Assessment." pp. 34

3.2.b. Costs for Members: Trade and Transaction Costs

In comparison to the rest of the Union, the trade of Côte d'Ivoire is substantially more diversified and leads the region in imports, yet, the economic base still faces a number of challenges with competitiveness and remains reliant on global commodity prices and external demand[116]. In addition to its substantial economic trade, Côte d'Ivoire functions as the conduit of trade and economic activity for its surrounding neighbors of Ghana, Burkina Faso, Mali, Guinea, and Liberia. Accumulated over the decade of instability that faced Côte d'Ivoire, the spillover effects these neighbors experienced were substantial.

Responsible for 30 percent of regional growth, an IMF policy report[117] shared that in 2012, with every one percent economic growth in Côte d'Ivoire, the WAEMU regionally experienced an increase of 0.3 percent regional economic growth. Demonstrative of the large influence this single member has on the rest of the Union; it also indicates the risk that other members can face when this country faces instability or an economic downturn. For example, due to Côte d'Ivoire's size, in comparison to the rest of the members, public borrowing needs commonly outpace that of the rest of the Union.

CFA members experienced losses in the forms of decreased trade, lost economic opportunities, and raised transactional costs when capital fled and economic flows were diverted to more stable countries in SSA. The loss in growth, however, was mitigated to an extent. This was due in part, to alternative countries benefiting from these increased trade flows, and potentially, supporting greater diversification of trade among members, post-conflict. Nonetheless, a UNDP[118] report estimates that due to the instability, the intraregional trade within the WAEMU was hampered by 60%.

[116] Economist Intelligence Unit. EIU Country Report Côte d'Ivoire. 2016.
[117] Staff. "WAEMU: Staff report on common policies for member states." *IMF*. 2012.
[118] Staff. "The Conflict in Côte d'Ivoire and its Effect on West African Countries: A perspective from the ground." *UNDP*. Issue Brief. 2011.

Public Infrastructure

Côte d'Ivoire is a significant trading partner in the Union and accounts for over 50% of WAEMU member's exports[119]. It is the second largest exporter of cocoa in the world and acts as a conduit for landlocked Burkina Faso, Mali, and Niger to coastline seaports. An extensive study[120] on the trade effect on WAEMU members found that due to the crisis, Burkina Faso, Mali, and Niger took on substantial transaction costs in transportation for their trade due to needing to use longer trade routes through Togo, Ghana, or even Senegal.

In addition to decreased trade revenues, remittance flows play a major role in these emerging economies, such as in Burkina Faso. Within this country, one third of households depend on foreign remittances. Credited to the vast number of Burkinabé living and working in Côte d'Ivoire, in 2003, Burkina Faso[121] experienced a $146 million fall in revenues to their budget due to the combination of losses in remittances, increased trade transportation costs, and decreased total trade revenues.

Egoumé and Nayo found that WAEMU members experienced a nearly 4 percent negative loss in trade regionally at the height of the conflict and Ivoirian trade intraregional suffered at a 40 percent loss. Indicative of the issue of nominal diversification in trade routes through other members, which proved to be costly for the region as a whole. This situation emphasizes a vulnerability in public infrastructure across the Union. In order to extract greater benefits from membership to the Union, members need to harmonize infrastructure, trade routes, and pursue a deeper diversification of exports.

[119] 2017. "Country Reports - Côte d'Ivoire." 1-40. *Business Source Complete*, EBSCO*host*. pg. 9
[120] Philippe Egoumé, and Ankouvi Nayo. *Feeling the Elephant's Weight: The Impact of Côte d'Ivoire's Crisis on WAEMU Trade*. IMF Working Paper (Washington: International Monetary Fund), 2011.

[121] Staff reporter. "Ivorian crisis causes $146 million budget shortfall." *IRIN News*. December 2003. Web.

3.2.c. Costs to Members: Fiscal Discipline and Debt Crisis

Common in economic arrangements[122], free riding behavior is when fiscal 'pain' is externalized to the other members, rather than being responded to domestically. Within a Union, all parties are interested in maintaining a stable system because if one nation is undermined or defaults, then the shockwaves will be felt by all. In order to maintain stability, fiscal discipline is a necessary measure for members, but can be difficult to maintain, especially in unstable developing markets. Within the WAEMU, Xavier Debrun, Paul Masson and Catherine Pattillo[123] found that the differences between membership benefits varied greatly between fiscally responsible members versus careless members. They suggest that fiscally conservative countries Niger and Benin received the least amount of benefits from the MU compared to Burkina Faso and Mali, due to these two more fiscally conservative states having to maintain funding to the central bank that is required to respond to the economies of unscrupulous members[124], Burkina Faso and Mali. Interestingly, in addition, these authors suggest that government spending propensities and financing needs are actually of greater weight than asymmetric shocks in deciding the net winners and losers in a monetary union, due to the magnitude to which members would hypothetically require financing from the central bank[125].

These imbalanced financing needs overflow from a variety of situations and is most readily apparent in Côte d'Ivoire by its 2011 default on foreign loans. This action threatened national liquidity and the position of regional members in the global economy. Thanks to the HIPC measures previously discussed, which provided debt relief for every country in the WAEMU, excessive indebtedness is not the looming issue it once was. However, a Spring 2017 report from the IMF[126], cited 'substantial vulnerabilities' for Côte d'Ivoire and three other members of the WAEMU in regards to public debt accumulation. These rising concerns are attributed to the

122 See: Coulibaly and Davis (2013)
123 Xavier Debrun, Paul Masson, and Catherine Pattillo. "Monetary union in West Africa: who might gain, who might lose, and why?." *Canadian Journal of Economics/Revue canadienne d'économique* 38, no. 2 (2005): 454-481.
124 Ibid. 470.
125 Ibid. 476.
126 Staff. West Africa Economic and Monetary Union: Common Policies of Member Countries. IMF Staff Report. April 2017.

strategic focus these four members have on stimulating growth in these countries through public investment. Because of these substantial public expenditures, this report cautions these members from taking on too much public debt. However, the efficacy and actual enforcement of policy recommendations such as those set out in this report is uncertain, as clearly indicated by the sluggish policy implementation by these members.

Although the response to the 2011 crisis was borne at no cost to member governments and was internalized by rolling over the debt to the BCEAO and issuing bonds, it did highlight a vulnerability of the Union in its excessive use of Article 71 of the WAEMU Treaty, which allows member states to be exempt from their obligations to comply with the convergence criteria in times of economic distress[127]. As discussed at length, this region consistently experiences asymmetrical shocks which disrupt economic growth. In providing an easy exemption for members from pursuing convergence, it provides the potential of a disincentive to maintain stability and encourages sluggish reactions to economic distress. This is especially pertinent in a region which is known for its "vague" implementation and enforcement of fiscal rules[128].

In addition to poor fiscal alignment, Côte d'Ivoire imposes an uncertain risk to fellow members due its historical lack of fiscal discipline and substantial debt. In the response to the possibilities of moral hazard, a 2015 IMF[129] report recommended the implementation of risk sharing mechanisms through a centralized insurance fund for all members to contribute and benefit from in times of crisis, to encourage swift stabilization and certainty. Another suggested risk-sharing mechanism is the creation of a regional budget, which would centralize a portion of tax revenues for the use of the entire Union to be used for social benefits or capital expenditures. Similar to what is implemented in the form of fiscal federalism found in the United States, both of these measures would provide valuable insurance and security measures for these members, albeit at the cost of measures of sovereignty in their own monetary policy.

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127 Mr Ermal Hitaj, and Yasin Kursat Onder. *Fiscal discipline in WAEMU: rules, institutions, and markets*. No. 13-216. International Monetary Fund, 2013.
128 Ibid. pg. 18.
129 Olivier Basdevant. *Strengthening the West African Economic and Monetary Union*. International Monetary Fund, 2015.

3.3. Discussion

This chapter sought to understand the spillover costs on members to the WAEMU from the Côte d'Ivoire crisis which marked this region for over a decade. In recognizing the vast barriers still facing this Union in the form of poor infrastructure, weak governance, and irregular application of regionally aligned policies, ultimately, it is important to note that the value of stability provided to these members as participants in a currency union, still outweighs its shortcomings.

In order to continue to stimulate and sustain economic growth, greater convergence across the entire Union is required. And as previously mentioned, greater integration requires a deeper loss of autonomous fiscal policy authority by member states. Ultimately, the crux of this discussion comes to a tense junction, wherein members are asked to concede a greater measure of their state sovereignty in the name of reaching greater convergence and in order to capitalize on greater returns from membership. It is a call to greater unity at the cost of national autonomy. A decrease in individual state sovereignty could possibly result in a greater equality of returns for members, and some scholars see this as a viable path forward. Diery Seck[130] advocates for budgetary policy alignment, suggesting members pool their resources within the Union, which could equate in the stronger economies aiding the weaker. Suggesting that greater fiscal integration could allow for greater risk sharing tools, which would mitigate the occurrence of one member dragging the rest of the members under due to undisciplined fiscal policy. On a social level, greater integration as a whole within this region not only aids in increased economic benefits for members, but it also raises the ability of members to tackle pervasive social indicators that haunt this region. Acknowledging the increasing income inequalities across the Union, Wane's study[131] on growth and convergence in the WAEMU indicated that greater economic policy convergence resulted in higher levels of per capita income alignment within countries. This outcome suggests substantial social benefits in encouraging policymakers to align their economic policies across the Union.

[130] Seck."Fifteen years of WAEMU: results and strategies for the future."
[131] Abdoul Aziz Wane. "Growth and Convergence in WAEMU Countries."

Conclusion

4.1 Discussion of Findings

This thesis explored a macro-level analysis of a monetary union which has remained on the periphery of a great number of academic research in the past decade. This macro-level analysis was used to understand the existence of imbalances within the West African members of the CFA Franc Zone. Through understanding the various benefits and costs which members face in participating in this Union, this research was able to determine specific imbalances in terms of policy compliance, macroeconomic divergences, and individual membership costs. As expected, through the course of this analysis, on both a macroeconomic and public policy level, the prevalence of divergences across the WAEMU was established. However, within the course of the study, unexpected findings also arose. These findings were helpful in gaining a deeper understanding of the WAEMU. Two such indicators include the discussion on the increase in absolute poverty rates which is mirrored by population growth, and secondly, the extreme lack of policy compliance within the convergence criteria across specific members. This lack of policy compliance in turn, also highlighted a flaw of the CFA and its weak ability to enforce members to implement specific policy proposals, such as the convergence criteria.

Unfortunately, due to a lack of consistent data and information, not all paths which had been intended to pursue were attainable within the timeframe of this research. Because of this and through the course of the study, the outcomes of this research differed from that which was anticipated. However, this study nonetheless provided a valuable contribution to the limited research on the specific issue of membership cost to the WAEMU.

4.2 Looking to the Future

There are sizeable challenges facing this region, many of which were discussed at length in this paper. From underdeveloped infrastructure, absolute poverty rates, to uncertain governments, this Union does not lack for obstacles which can hinder its growth and development. Because of this, topics for future research are substantial within the political economy discipline. Investigating the design of decision making and the role of institutions in individual members pursuing regional policies would uncover additional dynamics within the Union. Additionally, in light of the increasing population in poverty and a rise in absolute poverty rates, it would be intriguing to explore whether this rise in poverty and inequality has also stimulated a rise in violence or civil unrest.

Undoubtedly, members of the CFA Franc Zone have a long history littered with unscrupulous leaders and volatile circumstances that many Western countries no longer face. In studying this region, clear divisions emerge between countries that are lagging behind versus those that are making significant strides. One example is Senegal, who has sustained significant growth on social, political, and economic levels. However, when facing countries that seem to be stuck in a development decline, it can seem that despite substantial changes, West Africa remains much the same. This is a concern well reflected by the words of Alphonse Karr, *plus ça change, plus c'est la même chose*[132]. However, as time progresses and development continues, there is always hope that the tide will turn towards more inclusive growth and responsive governments for all members of the Union, facilitated not by the international community but by the members themselves.

[132] Written in 1849, denouncing French political struggle, this phrase means "the more it changes, the more it is the same thing."

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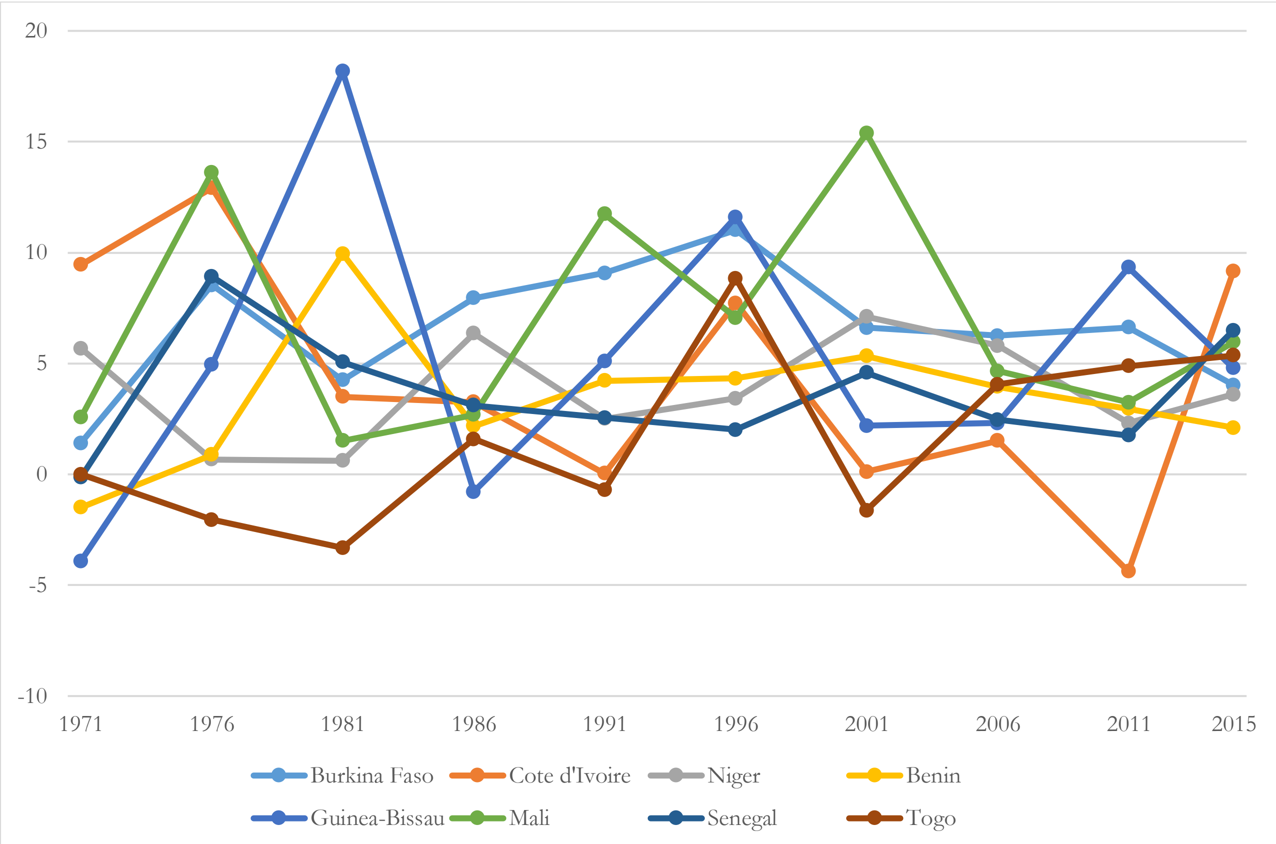
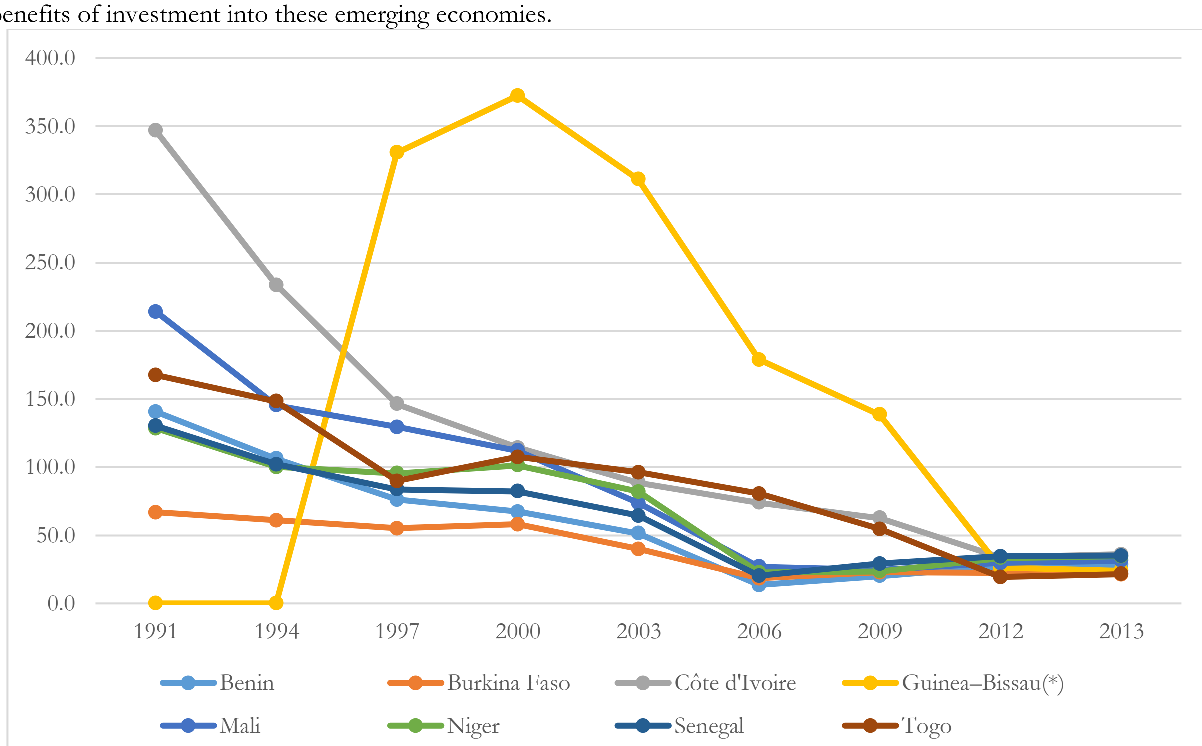
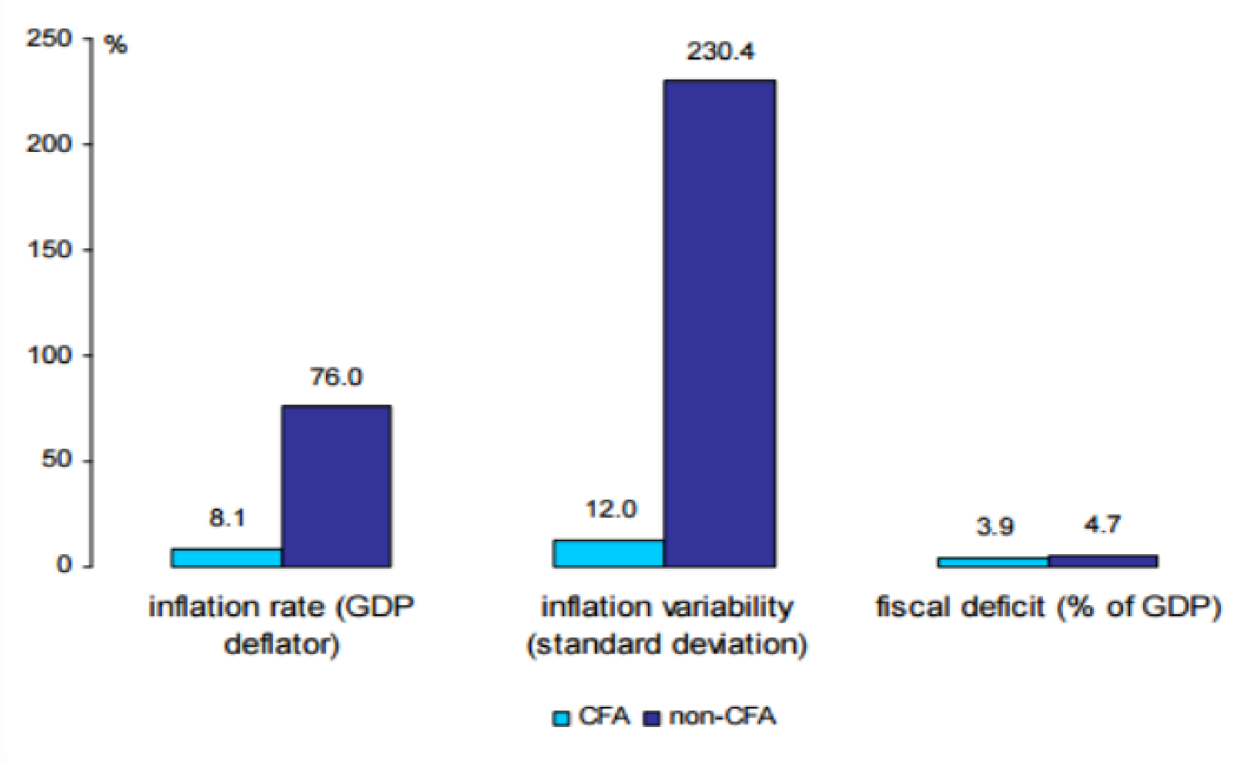
Appendix



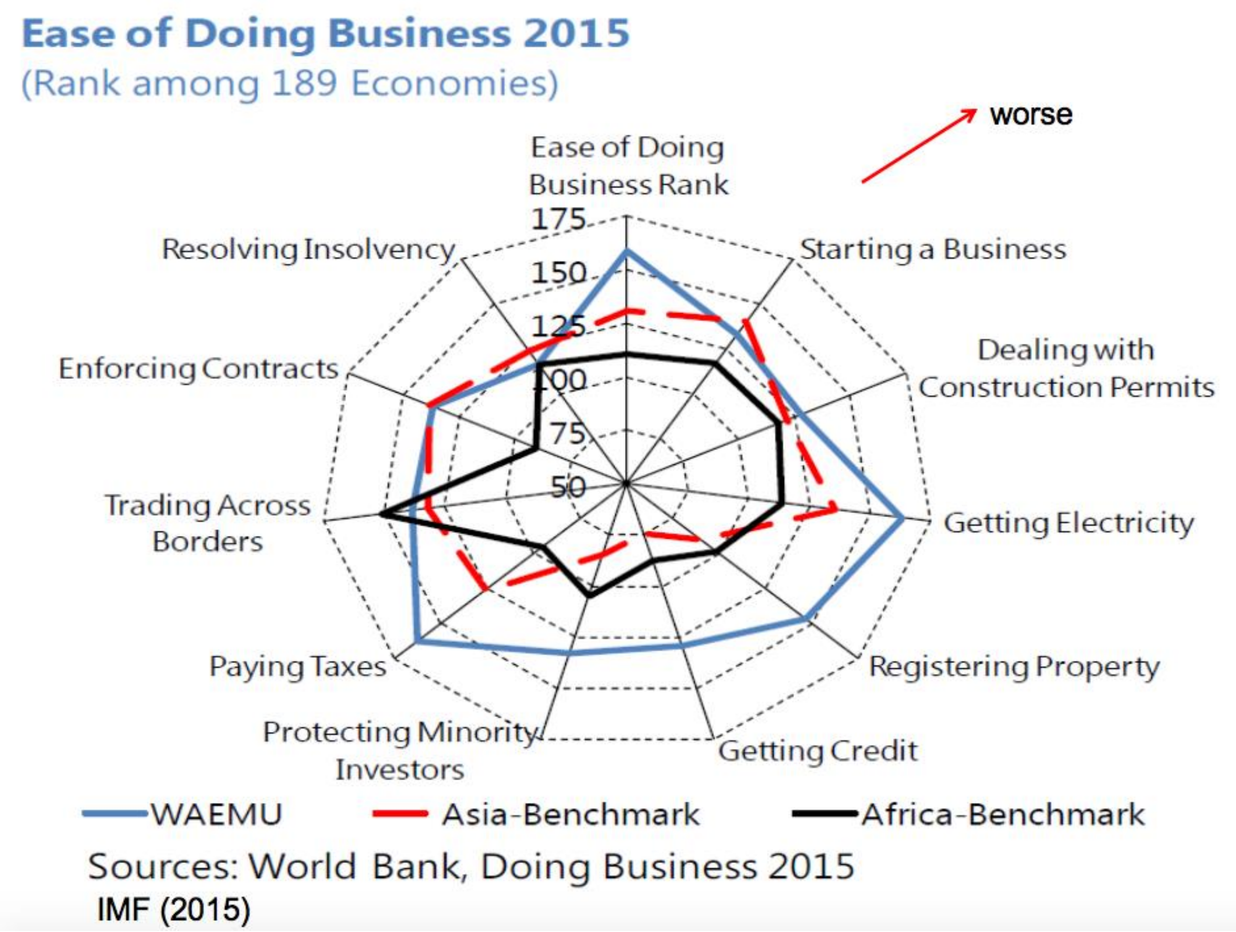
Appendix A. *Long-term growth averages as a % of GDP growth for WAEMU members, 1971-2015. Source: World Bank.*
Appendix A. indicates the long-term growth averages for these members, which has remained largely positive, yet unpredictable, an indicator of the unsteady confidence that external investors can rightly claim in weighing the costs and benefits of investment into these emerging economies.



Appendix B. Total External Debt (% of GDP). World Bank Development Indicator (2016)



Appendix C. Averages of inflation rate, variability and fiscal deficit in CFA franc countries and non-CFA countries in Sub-Saharan Africa between 1960 and 2004. Source: Amadou 2015.



Appendix D. Ease of Doing Business in 2015 for WAEMU members. Source: Amadou 2015.