

Chapter 2

Fifteen Years of WAEMU: Results and Strategies for the Future

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Abstract After 15 years of existence, WAEMU has recorded some undeniable successes, particularly in its currency management, its exchange policy and in the organisation of its stock market. It has also managed to preserve the solidity and reliability of its institutions and its members' adhesion to the community project. However, although there continues to be respect for its neutrality, independence and authority, it is facing difficulties improving in other areas that are, certainly, new to its scope of responsibilities. WAEMU is one of the most disadvantaged community areas in the world in terms of human development, and according to UNDP human development index (HDI) its ranking continues to regress. Furthermore, the growing economic divergence between the richest and the poorest countries highlights the failure of national policies in individual countries and the Union's inability to help these countries in a significant manner within the current framework, which is an element that could threaten cohesion.

The significant improvements that one can expect of the Union are not in the monetary arena, where it has managed to preserve and strengthen the gains from the West African Monetary Union (WAMU) that preceded it, but rather they are in those areas that continue to fall under national competence. There are four kinds of priority strategic actions that emerged from the analysis of WAEMA's institutional and programming results. First, WAEMU's economic and social—and therefore budgetary—policy competence should be broadened beyond monetary issues, and the states should envision conceding part of their sovereignty, which would strengthen the Union's ability to exploit its full potential. Increasing the Commission's revenues would make it easier to implement community projects that have been suspended or abandoned due to a lack of funding.

Secondly, the Union should focus on strengthening the weakest countries, both to improve the social situation of residents of those countries and to facilitate the

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equalisation process, which is key to all community projects. Thirdly, the Union should enact a social pact whose main goal would be to improve the standard of living of all its residents. Implementing the social pact would occur at the community level, under the Commission's overall authority and adequate financing. The fourth strategic priority would consist of increasing mobility within the Union to remove non-tariff barriers and untimely roadblocks, of encouraging the development of cross-national value chains within the Union and of reinforcing the creation of infrastructures that promote mobility.

I Introduction

WAEMU was founded in January 1994 to replace the WAMU and to serve as a framework for the formulation and implementation of development policies in the West African franc zone following the devaluation of the CFA franc. The economic and social conditions that led to its foundations can be succinctly summarised as follows. Although the WAMU zone experienced average GDP growth that was higher than that of sub-Saharan African countries from 1970 to 1985, its situation gradually deteriorated between 1985 and 1993 due to deteriorating terms of trade, which decreased by 40% during this period. The drop in the US dollar relative to the French franc, to which the CFA franc had been pegged through fixed parity, significantly reduced competitiveness of the zone's exports. In addition, coffee and cacao prices continued to fall, deepening trade balance deficits in member countries and affecting their foreign exchange reserves.

The public sector wage bill proved to be particularly high in the face of the rising budget deficit and had negative repercussions on performance in the private sector, which was facing high taxes, considerable arrears of the state and the expensive alignment of its pay scales with that of the public administration's higher scales. It followed that, despite moderate inflation rates, the monetary situation worsened quickly, due to capital drain and the monetisation of the states' budget deficits, which worked around the statutory pre-financing ceilings of the West African States Central Bank (BCEAO) by having recourse to loans from commercial banks that refinanced the monetary authority. Consequently, budget discipline slackened to relieve social tensions, aggravating the crowding out of private enterprises from the credit market and thus impacting investment and production. A vicious circle had taken hold and called for radical measures.

Considering the states' weak capacity to mobilise more budget proceeds, the erosion of the zone's real effective exchange rates, the inefficiency of Bretton Woods Institutions' aid programmes and the immobility of salaries in the formal labour market, it became necessary to change the parity of the CFA franc as an inevitable measure that needed to be accompanied by daring reforms to prevent the major internal and external imbalances of the previous decade.

WAEMU was created as an appropriate framework for the development and execution of reforms and initiatives related to restoring macroeconomic equilibrium among the zone's countries, building the credibility of the currency,

revitalising the economy through private investment, intensifying intra-zone trade and returning to budgetary discipline. The new line of measures targeted the zone's greater integration, with an ultimate goal of improving the standard of living of its residents. For the theory of Optimum Currency Areas, see Mundell (1961) and Kenen (1969). Many of these measures were implemented both at the community and national levels, with varying results. The purpose of this study is to review those results and draw up the most relevant conclusions from them in order to develop prospects that should govern WAEMU's future actions.

Requirements for WAEMU's Success

Necessary Monetary and Economic Arrangements

In view of the texts that govern WAEMU, notably the primary criteria for convergence, the project's monetary nature seems to dominate, reinforced by its economic aspects. Also, it is appropriate to study the factors that contribute to the success of monetary unions in light of past experiences. One can draw up four key lessons.¹ First, the success of the monetary union depends above all on the determination of its members to individually and irrevocably renounce monetary sovereignty and any use of monetary or exchange policy instruments in order to create a common regional institution that has the exclusive power to develop and apply monetary and exchange policy. In addition, the union must have a single currency and, if it has another one, the latter must have a fixed, unchanging nominal exchange rate with respect to the primary currency and free and unlimited convertibility so that the two currencies are perfect substitutes for each other.

Secondly, the monetary authority must be able to prevent, without pressure from the member states or the possibility of them working around the measures, any monetisation of their budget deficits, which is made easier if it has oversight on the level of budgetary expansion and therefore a certain capacity to discuss with its members. Indeed, it is essential that in its policy to defend the currency, it can juggle the inflationist trends that could result in excessive recourse to monetary creation through direct loans from the monetary authority or indirect ones from commercial banks. Thirdly, the success of a monetary union could depend on its organisation around a strong and stable economy or simply around the latter's currency, be it an officially fixed parity or a parity to which the members adhere freely but respect scrupulously.² This arrangement gives members of the union the benefit of externally-imposed discipline considering that monetary stability must be based on fiscal

¹ See Masson and Patillo (2001a, b).

² WAEMU, the Central African Economic and Monetary Union (CEMAC) and the Euro zone chose official fixed parity. WAEMU and CEMAC have the CFA franc that was pegged to the French franc and now to the euro, while the euro was organised around the Bundesbank and the German mark.

discipline not unlike that of an advanced economy. One of its main characteristics is strong fiscal discipline, which facilitates control of inflation. Finally, a monetary union cannot succeed without producing or being facilitated by the broader trade and institutional integration of its members. To achieve common goals other than monetary ones, the union may need to initiate additional reforms in harmony with monetary policy instruments and that have their own ambitions and implementation programme.

The success of an economic and monetary union hinges on an adequate institutional framework whose operational rules strengthen the effectiveness of its action. However, it also depends on controlling mechanisms through which the positive impact of integration efforts should be channelled. Six benchmarks enable the measurement of potential gains that could result from the union.

Increased Intra-zone Trade

Intensifying trade within the integrated zone benefits its economic agents and can stimulate private investment, create economies of scale and sometimes open up regions that are located on the main internal trade routes. The gains resulting from increased intra-zone trade depend on how complementary national production are, on how smoothly goods and people circulate throughout the union's territory and on the existence of fast and reliable means of payment along with a harmonised legal framework.

Weak Correlation of the Effects of Crises on Member Economies

Union members are better protected if the structure of their respective economies is safeguarded when other members suffer the impact of various crises, be they external such as changing world prices for certain products or variations in interest rates, nominal exchange rates or the level of worldwide economic activity, or internal; the overall impact is lessened.

Labour Mobility Within the Union

It becomes easier for union members to converge private investment profitability rates, unemployment rates and economic growth when labour circulates freely in the territory. The absence of barriers at the union's internal borders, freedom of residence and to acquire movable and immovable property, fiscal equality and the recognition of degrees and vocational certificates are factors that favourably impact labour mobility.

Union Competence in Budgetary Matters and Member Solidarity

A union can make great contributions to its members if it has the budgetary competence to help them accelerate economic convergence and face crises. This supposes full agreement on the methods used to calculate aid and the absence of hazardous

moral behaviour by its members or one of its members, the fulfilment of whose needs could eventually drain the solidarity fund. Finally, it also requires constant solidarity among the members, even when they face crises simultaneously. Granting budgetary competence to the union constitutes a transfer of budgetary sovereignty that, even if limited or circumscribed to specifically defined cases, is symbolically important in the expression of the members' commitment to have a shared future.

Unilateral Irreversibility of Community Arrangements

A union member's possibility of influencing how the common monetary policy is led or the monetary authority's ability of unilaterally adjusting the budgetary expansion of its members would considerably reduce the efficiency of the community arrangement and would threaten its long-term viability. In both a perceived and real manner, the union members and the private sector must be convinced that the monetary authority has its hands bound and that the community arrangement cannot be subject to any exceptions, so that the central bank's monetary policy cannot be dependent on the states' budgetary policy, notably by way of the non-statutory monetisation of the latter's deficits.

Member Adhesion to Nominal Convergence Criteria

The consecrated use of strictly observed convergence criteria by the union's members constitutes a major requirement for the existence of a single institution in charge of monetary and exchange policy and for the rise of a viable common currency in the community territory. The underlying challenge is to lead economies that are different in their structure, size, performance, assets, challenges and history to observe these criteria and to stick to them over time and despite shocks that will certainly affect them differently. The task is all the more difficult if community aid mechanisms lack when a major crisis affects some of the members.

WAEMU's Institutional Framework and its Functioning

WAEMU's Institutional Framework

Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo signed a treaty on January 10, 1994, which took force on August 1, 1994, creating the WAEMU to complete the WAMU that preceded it. WAEMU's objectives were formulated as follows³: (a) strengthen the competitiveness of economic and financial activities in

³ Guinea-Bissau became a member of the Union on May 2, 1997.

the member states in the framework of an open and competitive market and a rationalised and harmonised legal environment; (b) ensure the convergence of member state economic performance and policies by instituting a multilateral monitoring procedure; (c) create a common market among member states based on the free circulation of people, goods, services and capital and the right of establishment for people working independently or earning a wage, as well as a common external tariff and a common trade policy; (d) establish coordination of national sectorial policies by implementing common actions and eventually common policies, notably in the following areas: human resources, territorial planning, transport and telecommunications, environment, agriculture, energy, industry and mines; and (e) harmonise, as necessary for the good function of the market, member state legislations and, specifically, taxation.

To operate, the Union established the following bodies: the Conference of Heads of State and Government, the Council of Ministers, the Commission, the Court of Justice and the Court of Audit.

In addition, the Central Bank of West African States (BCEAO) and the West African Development Bank (WADB) are specialised WAEMU institutions, the former filling the role of central bank and the latter that of a subregional development bank. The Inter-parliamentary Committee and the Regional Consular Chamber complete the WAEMU institutional set-up. All of the Union's bodies have been in operation since 1998.

Convergence Criteria

In 1999, WAEMU members adopted the Convergence, Stability, Growth and Solidarity Pact, that was amended in 2003 and 2009. In virtue of the pact's current version, the Union established convergence criteria that have to be observed by all its members.

Primary criteria are a ratio of the basic fiscal balance to nominal GDP greater than or equal to 0%, an average annual inflation rate of 3% per year at most, a ratio of outstanding domestic and foreign debt to nominal GDP that does not exceed 70% and non-accumulation of domestic and external payment arrears in the current financial period.

Secondary criteria are a ratio of the wage bill to tax revenue that does not exceed 35%, a ratio of domestically financed public investment to tax revenue of at least 20%, a ratio of current exterior balance outside grants to nominal GDP of at least -5% and a tax-to-GDP ratio of at least 17%.

Additional Union Measures

The BCEAO and the WADB operate within the WAEMU as independent, specialised institutions, respectively, as the monetary authority and the investment bank. With the Union's goal of meeting its objectives, it has undertaken actions and

adopted measures that can be described succinctly as follows. In terms of harmonising national legislation, it implemented the West African Accounting System (SYSCOA), the state budget classification and the State Accounting Plan. It has also harmonised legislation in terms of value-added tax (VAT) and created the Regional Stock Market (BRVM). The institution of the National Economic Policy Committees and the adoption of a harmonised consumer price index (HICP) are its key actions in terms of multilateral monitoring of macroeconomic policies.

As part of its efforts aimed at creating a common market, the Union proceeded with removing non-tariff barriers and set up free movement, completely free of duties and taxes, of local and craft-industry products. In addition, it progressively reduced customs duties on industrial products of unapproved origin and fully undid tariffs on 100% of industrial products from approved origins. It also adopted community competition legislation. The CET was set up and accompanied by a maximum customs duty of 20% to which is added a statistical fee of 1% and a community solidarity duty of 1%. Sectorial policies were adopted in the following areas: energy, industry, mines, agriculture, environment, maritime, telecommunications, road transport, air transport, teaching and scientific research, health, women and employment. To fund development, WAEMU set up the Regional Integration Aid Fund (RIAF) and the aid intervention programme for member countries.

Analysis of the WAEMU Institutional Set-Up

At its foundation, WAEMU benefited amply from the experience of WAMU, which preceded it, notably in that which concerns the role and powers of the central bank, cooperation among member states, subregional monetary policy and bank supervision. These gains were updated with the start of WAEMU without any significant reconsideration and were completed with new economic arrangements that strengthened the Union. In light of its 15 years of experience, the Union can be considered a success in three of its four institutional arenas. In effect, it has managed to ensure the commitment of its members to delegate their monetary sovereignty fully and completely to a central bank, the BCEAO, whose powers, although supervised by the political authority of the states, are exercised independently and without specific pressure from the latter, thus enhancing its credibility and as a result that of its currency. The BCEAO exclusively enacts monetary and exchange policies, and the CFA is the only legal currency in the Union's territory, with no competition from any other currency.

The monetary authority has, among other things, been granted the capacity to prevent inflationist pressure that could result from uncontrolled and monetised budgetary expansion by the states through monetary reconciliation. The growing tendency of member states to finance their budget deficit on the BRVM financial market via compulsory loans constitutes a market mechanism that amplifies the BCEAO's institutional credibility. Finally, pegging the CFA franc to the euro and

Table 2.1 WAEMU country intra-community exports, in millions of CFA francs

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Benin	4.1	3.8	4.6	5.6	7.5	7.3	6.0	8.7	25.3	21.1	27.6
Burkina Faso	13.7	16.7	22.4	39.7	21.2	23.9	20.5	112.2	128.7	99.0	5.2
Côte d'Ivoire	249.7	311.6	344.8	391.3	422.6	406.3	390.1	320.8	349.9	417.0	455.5
Mali	49.4	37.6	45.2	26.8	38.8	15.6	37.9	18.6	42.4	52.4	39.3
Niger	9.1	7.1	8.9	8.0	8.0	3.8	7.4	3.5	15.5	8.3	6.4
Senegal	53.2	60.0	64.9	70.7	61.3	81.5	121.4	132.6	162.4	179.5	198.1
Togo	3.8	4.0	5.7	10.6	12.7	42.6	57.4	105.7	90.9	78.4	96.7

Source: WAEMU Commission

having the French Treasury guarantee of its convertibility strengthens the solidity of the Union because it encourages economic agents to compromise on their currency and to hold it without fear of it losing value.

However, the success of the Union has been less resounding on an economic level than on a monetary level due to this dimension being a more recent part of the community arrangement and to the national preponderance in budget policy, the tool of choice for economic policy. Although a large number of legal instruments and harmonisation tools have been issued in view of facilitating business practices and developing uniform standards, the Union's lack of budgetary competence has made WAEMU's economic policy the weak link compared with the scope of its monetary dimension. This institutional situation is not without consequences on the long-term prospects of the community project and therefore upon its final success.

Currently, the analysis will focus on the adequacy of the channels through which potential community gains can take form. The issues are those of increasing intra-zone trade, of reducing the correlation between the effects of crises on member economies, of labour mobility, of the scope of the Union's fiscal income based on member solidarity, of the irreversible unilateral community arrangements and of the member's adherence to conversion criteria.

Table 2.1 shows that intra-zone exports from the Union's large countries—Côte d'Ivoire, Senegal and Benin—increased greatly from 1996 to 2006. On the other hand, the landlocked countries of Burkino Faso, Mali and Niger experienced intra-community exports whose growth was more modest and more volatile. On the whole, WAEMU increased its cross-border trade, boosting the role of coastal states as suppliers to members without access to the sea and therefore integrating the whole of the Union more into a globalised world. Assessment of WAEMU's intra-regional trade performance has been conducted by Agbodji (2007), Bayoumi and Ostry (1995), Coulibaly (2007), Faroutan and Pritchett (1993) and Goretti and Weisfeld (2008).

Integration instruments, such as Organization for the Harmonization of Business Law in Africa (OHBLA), SYSCOA, the CET, the common road transport programme and the common air transport programme, play an important role in the expansion of intra-zone trade. However, the Union continues to suffer a negative impact from untimely roadblocks that delay delivery of merchandise, creating an additional economic cost.

It is generally admitted that the healthy economic growth of a developing country is based on export. As a result, any crisis that compromises exports could

Table 2.2 FOB export growth rate correlation matrix for WAEMU countries from 1990 to 2008

	Burkina Faso	Togo	Senegal	Niger	Mali	Côte d'Ivoire	Benin
Burkina Faso	1						
Togo	0.270	1					
Senegal	0.457	0.238	1				
Niger	0.327	-0.109	0.485	1			
Mali	0.209	-0.608	-0.023	-0.015	1		
Côte d'Ivoire	0.548	0.310	0.599	0.447	0.154	1	
Benin	-0.297	-0.001	-0.149	0.046	-0.006	0.035	1

Source: International Financial Statistics, IMF; author's calculations

impede economic growth. One of the reasons an economic union is desirable is that it provides an implicit assurance that results from there being a weak correlation between the impacts of crises and member exports. Table 2.2 shows the correlation among export growth rates in WAEMU member states, revealing a contrasting image. The two strongest economies—Côte d'Ivoire and Senegal—are the most correlated, at 0.599. The weakest economies have weak or negative correlation coefficients, which seems to indicate that they are less sensitive to external crises and that there is a better propensity to reassure each other.

On the whole, the correlation matrix highlights the significant gain that could result from the Union by mutualising the risks linked to the impact of crises on member economies. One must, however, note that WAEMU does not yet have a fund to guarantee its members' exports or any instrument that could compensate for a significant decrease in export proceeds. In addition, the community solidarity duty, which is 1% of non-community imports, could amplify the economic downside of a member state if the latter increases non-community imports to fill a passing production deficit.

WAEMU benefits from two factors that should make it easier to adjust to crises. The relatively large size of its informal sector in the labour market and its high capacity to adjust rapidly to crises constitutes a clear advantage that also impacts the formal sector. The second factor is linked to the Union's continued effort to facilitate the free movement of people by boosting development of the road infrastructure, removing visa requirements for Union residents and giving them the right to settle, work and acquire movable and non-movable property in every country in the community. WAEMU stands out due to its strong migratory flows as illustrated in the Burkina community found in Côte d'Ivoire, a third of whose population is considered to be of foreign origin.

Solidarity constitutes one of the economic and monetary union's key strong points and is based on the latter's capacity to help its members face temporary difficulties or to nudge the weaker members closer to the others, thus preserving cohesion and facilitating convergence. Upon analysis, WAEMU does not seem to have adequate resources to fulfil this role, despite the existence of the Regional Integration Aid Fund (RIAF) and the intervention programme. A lack of financial resources necessary to boost solidarity could weaken political determination to further the integration process and therefore limit the Union's development. From this point of view, taking into account how insufficient and relatively uncertain

public development aid is, the 1% community solidarity duty on non-community imports could benefit from being increased in order to give the Union more sovereignty and presence in the future of its members. In comparison, the European Union (EU) has four types of budget resources: customs duties on extra-community imports, customs duties on certain food products imported from outside the Union, a percentage of the value-added tax collected by its members and a direct contribution from member states representing a certain percentage of their gross national product. The EU's financial resources represent around 1.24% of the Union's gross national product. WAEMU's most important economic programs are described in WAEMU (2006). They can be compared to those of the European Union: see Leonard (2005).

Since it was created, the WAEMU has been characterised by the strict adherence to its governance principles and to an absence of unilateral modification in the rules that underlie how it conducts its monetary and exchange policy, whether it comes from the monetary authority or the member states. This stability in governance relations boosts the central bank's credibility and prevents uncontrolled budget expansion that would bet on a member state's deficit monetisation. On the other hand, it imposes that the latter confine itself to the strict management of the currency and therefore exclude the pursuit of other objectives that could conflict with defending the value of the CFA franc. In other words, the Union may need to develop and implement non-monetary policy instruments to pursue its economic goals.

It is commonly admitted that the keystone of a monetary union resides in the capacity of its members to work together to define convergence criteria and to respect them as much as possible. The eight criteria chosen by the WEMU are compatible with the Union's development and apply to all its members, although the deadline for conforming to them has been pushed to 2013. Table 2.3 details the member state's experience in this area.

Three key lessons can be drawn from the experience between 2004 and 2006, corresponding to 10 years after the foundation of the WAEMU. The first is that no criterion was respected by all the states in a given year and that no state respected any of the criteria every year. It is therefore appropriate to question the realism of levels demanded for each of the chosen criteria or of the Union's capacity to impose on its members conformity to commitments that have been made voluntarily. An alternative approach could consist of exploring a transfer of competences in certain areas—notably budgetary areas—that could facilitate the respect of certain criteria. The second lesson is that on average, the member states conformed to 3.88 criteria in 2004, 2.88 in 2005 and 3.25 in 2006, which represent less than half of the eight criteria and does not demonstrate any trend towards improvement over time. None of the criteria experienced an improvement in respect over time. One can therefore conclude that the WAEMU does not yet control how the respect of convergence criteria is evolving.

The third lesson resides in the differentiation between the most respected and the least respected criteria. Controlling inflation, a primary criterion, was the most observed but has the characteristic of being the most influenced by the monetary

Table 2.3 Achievement of convergence criteria in WAEMA countries

Convergence criteria (based on additional convergence indicators)		Achievement of criteria in 2006 ^a by state and review of performance in 2004 and 2005 in WAEMU							Number of countries having respected the criteria			
		Benin	Burkina Faso	Côte d'Ivoire	Guinea-Bissau	Mali	Niger	Senegal	Togo	2006	2005	2004
1	Basic fiscal balance ^b to nominal GDP (norm ≥ 0)	0.8	-1.4	-1.9	-2.2	2.9	-0.5	-1.1	-0.1	2	4	4
2	Underlying inflation rate (norm $\leq 3\%$)	3.9	2.5	2.5	2.2	3.6	0.7	1.6	1.8	6	1	8
3	Total outstanding debt to nominal GDP (norm $\leq 70\%$)	14.8	17.1	80.5	323.8	23.9	25.6	40.5	95.9	5	5	4
4	Non-accumulation of payment arrears (in billions)	0	0	426.2	nd	0	nd	0	nd	4	4	5
4.1	Domestic payment arrears	0	0	23.7	nd	0	nd	0	nd	7	5	5
4.2	Foreign payment arrears	0	0	402.5	21.8	0	0	0	26.8	5	5	4
5	Wage bill to tax revenue ^b (norm $\leq 35\%$)	35.2	36.3	43.1	86.2	24.9	31	30.3	34.6	4	3	4
6	Domestically financed public investment to tax revenue ^b (norm $\geq 20\%$)	17.6	30.6	11.8	2.1	17.4	21.2	27.8	5.5	3	4	4
7	Current exterior balance outside grants to nominal GDP (norm $\geq -5\%$)	-7	-11.3	1.8	-12.2	-8.4	-9.9	-10.4	-20.1	1	1	1
8	Tax revenues (norm $\geq 17\%$)	15.3	12	15.1	10.9	14.7	11.4	19.1	14.2	1	1	1
Number of criteria respected by countries		3	4	2	1	4	4	6	2			
		3	3	1	0	5	3	7	1			
		4	6	2	1	6	2	7	3			

Source: WAEMU Commission, April 2007

^a Shaded areas show respected criteria^b Corrected for budget grants and HIPC resources

authority via controlling monetary expansion. The most violated criteria concern the public budget—basic budget balance and fiscal pressure rate—along with the current exterior account. These three variables are under national policy control and seem to indicate the areas that need more efforts to consolidate the Union.

To conclude this section, Table 2.4 summarises the efforts accepted by the WAEMU and proposes a measure of how adequate they are with regard to the member states' integration project. The measures that are under the monetary authority were observed and were executed relatively well. These are transferring monetary sovereignty from the member states, the development and implementation of monetary and exchange policy, pegging the CFA franc to a strong currency and guaranteeing convertibility, and the unilateral irreversibility of community monetary arrangements. Some, although insufficient, progress has been made in diversifying national economies, notably concerning exports and labour mobility. Greater attention must be paid to four major areas which are (1) strengthening WAEMU's capacity to lead regional economic policies that work together with national economic policies, (2) expanding intra-community trade, (3) increasing the Union's financial resources and budgetary competence and (4) strengthening the Union's capacity to get the countries to respect convergence criteria and to find alternative solutions that can promote the respect of those criteria.

II Review of WAEMU Results

This review of WAEMU's results after 15 years of existence covers three areas: a social and economic review, a monetary and financial review and a review of convergence between the Union's national economies.

Social and Economic Review

Table 2.5 gives an overview of human development in the Union's member states as measured by the UNDP's HDI. It raises three issues. First, the average ranking of WAEMU zone countries regressed continually from 1990 to 2007. In other words, the level of human development prior to the creation of WAEMU was greater than that it experienced after 15 years of existence. Secondly, between 1990 and 2007, with the exception of Benin which dropped 12 spots in the ranking, each state taken individually dropped by 20 spots or more, with the Côte d'Ivoire dropping by 40. Finally, the weak ranking of the countries and their continual decrease make the WAEMU one of the most disadvantaged community areas in the world and run the risk of keeping it there in the foreseeable future if determined action is not taken to remedy this situation. The social record of WAEMU is examined by Bleaney and Nishiyama (2004), Fielding (2004) and Konseiga (2005).

Table 2.4 Assessment of WAEMU's institutional and operational set-up

Criteria of success	Implementation	Degree of accomplished efforts
<i>Institutional criteria</i>		
Sovereignty and single regional currency	<ul style="list-style-type: none"> – Single, independent central bank – Total abandon of national monetary sovereignty – Single, convertible currency throughout the zone 	+++
Controlling budgetary expansion and inflation	<ul style="list-style-type: none"> – BCEAO controls budgetary expansion, prevents deficit monetisation by members – BCEAO dialogues with states about their budgets – State budget deficits financed by compulsory loans 	+++
Pegging to a strong and stable economy or currency	<ul style="list-style-type: none"> – Institutional pegging to euro – Unlimited convertibility of CFA franc guaranteed by French Treasury 	+++
Additional measures for economic integration	<ul style="list-style-type: none"> – Standards and regulations enacted – Absence of internal execution capacity – Insufficient Commission budget for programme implementation – Limited Commission influence on states' economic policy 	+
<i>Operational criteria</i>		
Increasing intra-zone trade	<ul style="list-style-type: none"> – Increased overall intra-zone trade – Noticeable improvement in coastal country exports – Weak increase and large variability in landlocked country exports 	+
Weak correlation of the effects of crises on members' economies	<ul style="list-style-type: none"> – Moderate correlation between exports of two largest economies – Small country exports hardly or not at all correlated 	++
Union budgetary competence	<ul style="list-style-type: none"> – Union funding insufficient for regional economic policy – Weak absorption capacity of the states (RIAF) 	+
Manpower mobility	<ul style="list-style-type: none"> – National legislations favourable to mobility and settling for residents of the Union – Regional transport infrastructure is insufficient 	++
Unilateral irreversibility of community arrangements	<ul style="list-style-type: none"> – Good set-up with very good credibility 	+++
Member adherence to convergence criteria	<ul style="list-style-type: none"> – Adherence insufficient over time, for each criteria and for each country 	+

Table 2.5 WAEMU country human development index (UNDP) ranking, 1990–2007

	1990	1995	2000	2005	2007
Benin	149	145	158	163	161
Burkina Faso	157	172	169	176	177
Côte d'Ivoire	123	148	156	166	163
Guinea-Bissau	152	164	167	175	173
Mali	155	171	164	173	178
Niger	156	173	172	174	182
Senegal	137	158	154	156	166
Togo	132	144	141	152	159
Average country rank	145.1	159.4	160.1	166.9	169.9
Total number of ranked countries	160	174	173	177	182
Average standardised rank (Cf. Note)	90.7	91.6	92.6	94.3	93.3

Source: United National Development Programme Report, 1992, 1998, 2002, 2007/2008, 2009

Note: The average standardised rank is the average rank relative to the total number of ranked countries multiplied by 100

Table 2.6 Gross domestic product per capita in WAEMU countries in current dollars, 1990–2007 (PPP, in \$US)

	1990	1995	2000	2005	2007
Benin	1,043	1,800	990	1,141	1,312
Burkina Faso	618	784	976	1,213	1,124
Côte d'Ivoire	1,324	1,731	1,630	1,648	1,690
Guinea-Bissau	841	811	755	827	477
Mali	572	565	797	1,033	1,083
Niger	645	765	746	781	627
Senegal	1,248	1,815	1,510	1,792	1,666
Togo	734	1,167	1,442	1,506	788

Source: UNDP Human Development Reports, 1993, 1998, 2002, 2007/2008, 2009

The evolution of the per capita GDP in Union countries is presented in Table 2.6. It shows that the countries that were the richest in 1990—Côte d'Ivoire, Senegal and Benin—remained so and experienced respective growth in income. On the contrary, the economically weak countries such as Guinea-Bissau, Niger and Togo stagnated or fell behind. One should also note that the latter experienced high levels of income variability, which aggravated matters for them in their efforts at development and internal redistribution. The WAEMU has a major challenge in this area, which lies in the significant and growing income disparity among its members. For example, in 1990, the average income of the three richest countries was US\$1,205, while the average income of its three poorest members was US\$611, which represents a gap of US\$594. In 2007, the average income of the former increased to US\$1,556, while the latter was only US\$630, creating a difference of US\$926. As a result, the gap between the two groups increased by 56%. On the whole, these results highlight the urgent and necessary need for WAEMU to focus on its weakest members in order to bring them up to the level of the others, to help them meet their social challenges head on, as left without solutions the current situation could lead

Table 2.7 WAEMU country inflation rates for five prior years

	1990	1995	2000	2005	2007
Benin	n.d.	17.8	3.7	2.8	2.6
Burkina Faso	−0.4	6.7	2.4	3.0	2.0
Côte d'Ivoire	4.8	9.7	2.9	3.2	26
Guinea-Bissau	58.0	47.2	22.9	1.5	1.5
Mali	0.3	6.4	1.7	2.4	1.0
Niger	−3.0	6.6	2.7	2.6	1.3
Senegal	0.2	7.5	1.4	1.5	2.0
Togo	0.8	11.3	3.1	2.6	1.9
WAEMU	n.d.	11.0	2.4	2.8	2.3

Source: International financial statistics, IMF

to sociopolitical unrest. One should also note the major income gains recorded by Burkina Faso and Mali, two landlocked countries that made regular progress without too much variability. Several studies describe the macroeconomic characteristics of WAEMU and its challenges. They include Doré and Masson (2002), Fielding et al. (2005), Hinkle and Montiel (1999), Linjouom (2004), Masson and Patillo (2005), Nashabishi and Bazzouni (1994), Rogoff and Reihart (2003), Rosenberg (1995), Rother (1998), Roudet et al. (2007), and Yehoue (2006).

Monetary and Financial Review

A review of WAEMU's monetary results is carried out from the angle of inflation and financing the economy. A history of inflation rates in the Union's member countries is presented in Table 2.7. It shows that outside the inflationist period that followed the CFA franc's parity change in January 1994, inflation has been well controlled in all the countries, with the exception of Guinea-Bissau, which was experiencing a civil war and was taking its first steps in the Union. So, the Union maintained its tradition of having a low inflation rate that dated to before the devaluation of the CFA franc—cf. the 1990 rates—and was able to create uniformity in this area by respecting its first-order convergence criteria regarding inflation, which prescribes that the rate not exceed 3% annually. One should underline the preponderant role the monetary authority played in these achievements and perhaps be inspired by it for the development and implementation of non-monetary policies, considering the rather modest results of national development policies.

Financing the economy plays a key role in development zone such as WAEMU and contributes to its financial liberalisation. The monetary supply to GDP ratio gives a reliable indication and is presented in Table 2.8. Notable progress has been recorded in this area since WAEMU was founded, except in Niger, whose situation calls for special attention due to its low level of monetisation and the huge gap that separates it from the other members of the Union. One should note that countries such as Guinea-Bissau and Togo, whose per capita GDP is relatively low as shown in Table 2.6, benefited from a relative monetary supply level that could contribute to them catching up with the other members, without any particularly inflationist

Table 2.8 Money supply ratio relative to GDP in WAEMU countries

	1990	1995	2000	2005	2007
Benin	25.1	22.9	28.6	25.8	30.7
Burkina Faso	18.1	21.4	20.9	18.8	22.5
Côte d'Ivoire	28.8	28.7	21.8	22.7	28.2
Guinea-Bissau	8.0	9.4	42.7	31.5	36.5
Mali	20.1	18.7	21.4	26.3	28.4
Niger	19.8	14.1	8.8	6.5	9.1
Senegal	22.6	20.6	23.7	32.3	35.0
Togo	36.1	26.0	26.0	27.5	35.9

Source: International financial statistics, IMF

pressure, if the hypothesis that the currency plays a positive role in economic development proves to be true in the WAEMU space.

Our analysis will now look at the Union's financial results. The banking system faced tightening credit following the devaluation of the CFA franc and progressively was able to return to rates comparable to those that occurred in 1990, an evolution that was facilitated by the states' increasing use of compulsory loans to finance their budget deficits, thus reducing the displacement of the private sector from the credit market. This change is connected to economic growth in the Union's members that it accompanies. Outside of the Côte d'Ivoire, which experienced a situation of near-division on the sociopolitical level that tended to reduce banking activities in certain regions, greater attention should go to Guinea-Bissau and Niger, whose private sector suffered for a long time from a level of access to credit that was too low to be compatible with sustainable economic growth. For the Union, in general, and for these two countries in particular, more in-depth analysis of the causal connections between credit expansion in the economy and economic growth—respecting WAEMU's nominal convergence criteria—should be carried out to, perhaps, support development efforts.

The regional stock market (BRVM) has actively participated in funding the sub-region since it was founded in September 1998. According to the World Bank, the market capitalisation of listed companies represented 11.4% of its host country Côte d'Ivoire's GDP in 2000, 14.2% in 2005 and 42.2% in 2007. The integrating nature of BRVM and its capacity to mobilise community and foreign savings constitutes one of WAEMU's greatest financial achievements, even if too high a concentration benefits Senegal and the Côte d'Ivoire, thus accentuating the imbalance already observed on the private sector credit market.

Real Community Convergence

The records of nominal convergence and real convergence in the WAEMU have been evaluated by Bamba (2004), Bamba and Diomande (1998), Berthelemy and Vadorakakis (1996), Ndiaye (2007), Sy (2006) and Wane (2004). One of the key measures of WAEMU's success lies in the economic convergence of its member states towards sustained growth, marked by the weaker countries catching up with

Table 2.9 Ratio of private sector credit to GDP in WAEMU countries

	1990	1995	2000	2005	2007
Benin	19.1	7.4	11.6	15.3	18.4
Burkina Faso	16.8	6.1	11.7	16.0	16.0
Côte d'Ivoire	36.5	20.4	15.2	13.4	15.2
Guinea-Bissau	2.6	4.9	7.9	2.0	5.6
Mali	12.5	9.7	15.1	16.1	17.4
Niger	12.3	4.4	5.2	6.5	9.1
Senegal	26.4	14.7	18.7	21.6	21.9
Togo	22.6	17.1	15.6	17.1	20.4

Source: International financial statistics, IMF

the more advanced countries. Two types of convergence measures will be used to evaluate Union performance: absolute convergence—or β -convergence—and σ -convergence that shows—via a decrease over time of the value dispersion coefficient among the countries relative to a variable—growing similarity. Wane (2004), Van Den Boogaerde and Tsangarides (2005), Masson and Patillo (2005), and Ndiaye (2007) tested σ -convergence on per capita GDP in WAEMU countries. The majority of these studies conclude in a lack of σ -convergence, which in the case of WAEMU countries means that the richest countries remain so over time and the poorest remain the poorest, a result that concords with Table 2.6.

σ -Convergence tests have also been carried out on other economic indicators in WAEMU countries. Ndiaye (2007) demonstrated an absence of convergence for investment relative to GDP, while Van Den Boogaerde and Tsangarides (2005) found weak convergence. Van Den Boogaerde and Tsangarides (2005) results concerning savings rate measured by the ratio of gross savings relative to GDP indicate σ -divergence. Sy (2006) found growing divergence in the member states' banking sectors by measuring over time the change in dispersion between lender and borrower interest rate gaps (Table 2.9).

The rare tests of absolute convergence that have been done on WAEMU country economies have given the following results. For Wane (2004), convergence—measured by the negative sign of the β coefficient of per capita GDP on the lagged dependent variable of the latter—is slow, reaching 6% a year. On the contrary, Masson and Patillo (2005) use the Markov chains and find a process of GDP per capita divergence in the zone's countries. Finally, Sy (2006) suggests that there is no β -convergence in the case of the gaps between lender and borrower rates in WAEMU countries, which indicates an absence of integration in the Union's banking sector. Assessment of WAEMU's overall performance has been conducted by Clément et al. (1996), Goreux (1995), Hernandez-Cata et al. (1998), and Van Den Boogaerde and Tsangarides (2005).

In conclusion, the review relative to convergence of the real economic sectors in member states reveals results that are not particularly satisfactory from the viewpoint of both disparity reduction and speed at which the lagging countries are catching up with the leaders. The greatest challenges lie in the budgetary and economic policy arena rather than in the area of monetary policy, as the monetary authority has demonstrated strong control over inflation. One should then raise the

question of the level of resources made available to the Commission in order to help the weaker countries better integrate the Union and facilitate its progress.

III Recommended Strategies for the Future

What strategic priorities can be drawn up from this short analysis of WAEMU's institutional set-up and its operational results and performance in order to renew the Union's dynamism? The results that have been presented and that could drive specific actions can be organised along four main lines: (1) strengthening the Commission's regional policy competences, (2) implementing a more active policy to strengthen the Union's weaker countries, (3) the creation of a social pact and (4) increasing the mobility of goods, people and capital. First, it is essential to recall that the Union's main strength lies in its long experience and the quality of its monetary arrangement, which serves as a basis and could be the model it should follow to build the institutions that will ensure its future successes.

Strengthening Union's Policy Competences

The success of the BCEAO and of the BRVM and the difficulties the states are facing in their respective internal policies offer an interesting contrast and raise the issue of the need to confer more competences to the Commission in order for it to increase the quality of its policies, benefiting from economies of scale and taking inspiration from the experiences of its specialised institutions. Furthermore, delegating monetary sovereignty should be accompanied by a comparable, be it unequal, delegation of budgetary policy competences in order to provide the Union with greater benefits. Such a change will noticeably benefit the weaker countries, whose financial and human capacities cannot, for the time being at least, initiate policies that could result in development.

At its current stage, the Commission has focussed on establishing standards and regulations that could create a favourable development environment in the Union. Yet, due to a lack of resources, it has not yet undertaken the vast regional economic development programme the zone needs. However, this work is an important part of its mission. It is symptomatic that a large number of projects found in WAEMU's 2006–2010 strategic development document have not been undertaken due to a lack of funding. WAEMU could envision the possibility of having a number of national competences transferred to it and of receiving higher fiscal proceeds in compensation through a higher community duty or through funding that comes from the profits made by its specialised institutions.

Policies to Strengthen the Weaker Countries

Economic divergence and the inability of the weaker countries to catch up in the Union is one of the results that stand out the most in this study. Both from the point of view of their level of human development and their economic performance, Niger and Guinea-Bissau first, and Burkina Faso and Mali to a lesser extent, deserve special attention to help them rise to the level of the other member states.

There are three potential areas of intervention. First, an increased technical skills-transfer and direct support programme for national administrations could be developed to improve the process of developing and implementing national policies. The difficulties that states are facing to conform to nominal convergence criteria or to catch up to the level implied by real convergence can be, for the most part, attributed to deficiencies in national budgetary and trade policies.

The second possible area of intervention is increased funding of the economy and of the private sector in the weakest countries. The monetisation rate (M2/GDP) of their economies and the level of bank financing of the private sector cannot reasonably be considered compatible with sustainable economic development. One must also admit that the weak countries' low capacity for financial absorption and the private sector's low level are non-negligible limitations to the expansion of financial development in their economies. Thus, it is appropriate to explore the very means of reaching this objective that is so essential to the long-term success of the Union.

Fighting the large variability of economic indicators in the weakest countries is the third area of possible intervention. Several measures could be combined to contribute to reaching this goal. Among the more important ones is the diversification of exports by creating new sectors of comparative advantage, controlling water and the modernisation of cultural techniques, enhancing the level of agricultural supervision and implementing insurance programmes linked to export levels or to nominal GDP.

Creating a Social Pact

The WAEMU zone is one of the most disadvantaged in the world because its level of social development is one of the most modest. The majority of the region's social challenges are shared by all the member states and therefore justify synergistic collective action, as the weakest countries are facing many difficulties accomplishing alone the social progress required for their development. Following the example of the Convergence, Stability, Growth and Solidarity Pact, WAEMU members could join forces through a social pact whose goal would be to develop joint social policy that includes transfer of state competences to the Commission in the same spirit as for the New Partnership for Africa's Development (NEPAD). Such an undertaking could model itself after the operations and governance of WAEMU's specialised institutions such as the BCEAO, the WABD and the BRVM. Operational and

financial independence and having a regional mission would make the social pact effective in a way that would be hard for a single country to attain.

As an example, social pact programmes could include healthcare (endemic diseases, vaccination and prevention campaigns, university hospitals), social habitat, water and higher education. The WAEMU could also run programmes in emergency zones such as where there are conflicts, epidemics or natural disasters, supported by the traditional international humanitarian involvement.

Increasing Mobility

Mobility of capital, goods and people is one of the building blocks of regional integration. Policies that aim to encourage the private sector to make cross-border investments should be actively pursued in order to promote the transfer of technology and know-how and also to promote banking credit of the economy, particularly in countries where this is low. The WAEMU could also benefit from persevering in efforts undertaken to remove non-tariff barriers and roadblocks in order to make intra-community economic trade smoother. Increased mobility of merchandise could promote the transformation of agricultural products in the WAEMU space thanks to their rapid and economical transfer from rural zones to industrial zones, thus creating more regional complementarity within the Union. Building new infrastructure should be one of the priorities in the effort to build mobility within the Union.

IV Conclusion

After 15 years of existence, WAEMU has recorded some undeniable successes, particularly in the management of its currency, its exchange policy and the organisation of its stock market. It has also managed to safeguard solid and reliable institutions as well as the adhesion of its members to the community project. Its neutrality, its independence and its authority continue to be respected, despite events such as the Côte d'Ivoire crisis and the disorder in Guinea-Bissau, which rocked the region. Yet, it should be noted that the Union has reached its limits, at least in its current configuration, with regard to pursuing some of its objectives. Just as its successes are confirmed over time, it continues to have trouble improving in certain areas, which are no doubt new areas of competence.

In effect, after 15 years of efforts, from a human development perspective, the WAEMU is still one of the most disadvantage community areas in the world and its average UNDP HDI ranking has continued to regress, being now lower than it was prior to the founding of the Union. As a result, it is urgent to improve the standard of living of its citizens. Furthermore, the growing economic divergence between the

richest and the poorest countries in the Union highlights the failure of national policies undertaken individually and the Union's incapacity to help them in a significant manner as part of its current framework. Such a situation is not without risk for the Union's cohesion and could dampen the political determination of its members at the precise moment when it needs to be stronger to support a more ambitious community project.

The significant improvements that one can expect from the Union are not in the monetary area, where it has managed to safeguard and to strengthen the gains of the WAMU that preceded it, but rather in those areas that are still under national responsibility. In this, the model of the Union's specialised institutions to which it owes its most major successes deserves to be spread to other sectors. It would be a question of transferring certain competences that until now were national and that the states, particularly the weakest of them, are having trouble meeting to the Commission in exchange for greater budgetary resources. Several forms of additional funding for the Commission could be envisioned, including a community duty, the transfer to the Commission of part of the benefits of specialised institutions or recourse to the stock market combined with external contributions in the form of guarantees or co-reimbursement.

There are four kinds of priority strategic actions that have emerged from the analysis of WAEMA's institutional and programming results. First, WAEMU's economic and social—and therefore budgetary—policy competence should be broadened beyond monetary issues, and the states should envision conceding part of their sovereignty, which would reinforce the Union's ability to make the most of its full potential. Increasing the Commission's proceeds would make it easier to implement community projects that have been suspended or abandoned due to a lack of funding. Such a decision would bring many benefits to the weakest countries because it would back up their limited national capacities significantly and mutualise part of the budgetary resources transferred from stronger members.

Secondly, the Union should focus on strengthening the weakest countries, both to improve the social situation of residents of those countries and to facilitate the levelling-up process, which is key to all community projects. With this in mind, the Commission could initiate a technical competence transfer and support programme for national administrations in order to improve the process for developing national policies. It could also promote greater financing of the economies of these states, notably by stimulating credit to the private sector and by encouraging controlled monetary expansion that would reduce the degree of financial restrictions, as measured by an M2/GDP ratio that is too weak to be compatible with sustainable economic development. Finally, appropriate and lasting measures should be developed to fight the great variability of the key economic indicators in these countries.

Thirdly, the Union should enact a social pact whose main goal would be to improve the standard of living of all its residents. Implementing the social pact would occur at the community level, with the Commission's overall responsibility and adequate financing. The synergies and levelling among all the countries that

would result would certainly strengthen the adhesion of all its members. The structure of the Union's specialised institutions could inspire the operationalisation of the social pact. The fourth strategic priority would consist of increasing mobility within the Union by removing non-tariff barriers and untimely roadblocks, encouraging the development of cross-national value chains within the Union, and of reinforcing the creation of infrastructures that promote mobility.

It is possible to pursue all these strategic priorities at once because currently, the political commitment of the states is intact. In addition, exterior factors such as globalisation and its challenges, which require a collective response and greater attachment to economic unions as recently illustrated in Europe in reaction to the economic crisis that shook the world, call for strengthening the Union and for stronger adhesion to the community project. It is therefore time for strong action, and the conditions are promising.

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Wealth through Integration

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