

West African Economic and Monetary Union (WAEMU): Economic Benefits, Achievements and Challenges

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ABSTRACT

The study examined West African Economic and Monetary Union (WAEMU) with focus on the benefits, achievement and challenges of WAEMU. Seven Sub-Saharan African countries- Benin, Burkina Faso, Cote De' Ivoire, Mali, Niger, Senegal, Togo and Guinea-Bissau signed a treaty establishing WAEMU. In order to address the subject matter of WAEMU and put the regional economy of WAEMU on the path of growth and development, the study used library science method/content analysis in which data from secondary materials on regional economic integration in WAEMU and other regional blocs. The findings from the content analysis showed that, the role and achievement of WEMU include but not limited to; fixed exchange rate regime, effective capital controls, foreign exchange reserves, sensible data matching and forecasting capabilities and coordinate monetary policies. Nevertheless, WAEMU is faced with challenges in trade openness, stringent government policies and industrial productivity.

KEYWORDS

African countries, Monetary union, Sub-Saharan, WAEMU, West African

I. INTRODUCTION

International and domestic motivation are essential in the progression of regional bodies in African nations. Thus, after the independence, African nations found the need to associate with one another in terms of both political and economic in order to develop the region of Africa. Regional economic integration could therefore be defined as a situation whereby nations came together to form free trade areas or customs unions, offering members preferential trade access to each other's markets. At such, regional economic integration was classified into; Free (trade-tariffs between members' countries), custom union, common market, economic union and political union. Example of such integration include; West Africa Economic and Monetary Union (WAEMU), Common Market for Eastern and Southern Africa (COMESA) and Economic Community of West African State (ECOWAS). But the principal focus of this study is WAEMU. This is because WAEMU was established in 1994 as a trade and currency union with the aim to increase economic activity through a rise in trade or investment flows among member countries.

The West African Economic and Monetary Union (WAEMU) is an organization whose mission

is to bring about the economic integration of the member states by enhancing the competitiveness of their economies in the framework of an open and competitive market, and a streamlined and harmonized environment. WAEMU is a tool for sub-regional integration that takes account of the economic and monetary aspects of the West African sub-region; has a better grasp of the challenges to be met; and has equipped itself with a powerful economic and financial tool.

WAEMU as an economic union emerged from colonial arrangements. That is why critics describe it as “colonial relic” that is meant to preserve the dominance of Paris and French companies in West Africa (Conrad, 2022; Pilling, 2019). It was initially aimed at reducing transaction costs, facilitating the free movement of persons, goods, services, and capital among its members. The International Monetary Fund (IMF) and some global bodies have consistently described WAEMU as successful regional bloc with a high level of economic integration. But most empirical studies and statistical facts have found little evidence for this assessment (Pangea, 2021). In contrast, it seems that many critics are right in pointing towards worrying low levels of trade and investment across the bloc. They claim that low inflation can be regarded as WAEMU’s single achievement, and even then, the question remains whether anti-inflationary governance is appropriate in the development context of Africa.

II. HISTORY AND DEVELOPMENT OF WAEMU

In January 1994, seven Sub-Saharan African countries- Benin, Burkina Faso, Cote De’ Ivoire, Mali, Niger, Senegal, and Togo signed a treaty establishing WAEMU. These countries, with an addition of Guinea-Bissau in 1997, formed part of the CFA franc zone along with a second group of six African countries that participated in a similar monetary arrangement, the Central African Economic and Monetary Community (CAEMC). The CAEMC countries are Cameroun, the Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon. Within each subzone, monetary arrangements are managed by a separate Central Bank. The Central Bank of West African States (BCEAO) for WAEMU and the Bank of Central African States (BEAC) for the CAEMC.

The two subzones share a common currency, the CFA franc, which stands for the *Commune financier Africana* in the BCEAO area and for the *Cooperation financier en Enrique* in the BEAC area. Member of each subzone agree to pool a minimum proportion of their gross foreign exchange reserves (currently 55 percent) in an operations account with the French treasury. Through this account, the French treasury provides an unlimited overdraft facility, thus guaranteeing the convertibility of the CFA franc. Since its introduction in 1948, the CFA franc has been pegged to the French franc, and, except for devaluation in 1994, its parity has remained unchanged.

The West African Economic and Monetary Union (WAEMU) was founded on the 10th of January, 1994 in Dakar, Senegal by the Heads of States and Government of the seven West African countries. WAEMU member countries are working toward greater regional integration with unified external tariff. WAEMU brings together eight West African countries whose vision is to promote the integration of Member States through the strengthening of the

competitiveness of economic activities within the framework of an open market and competition and a streamlined and harmonized legal environment.

WAEMU is represented by a logo that symbolizes growth, union, solidarity and complementarity between the Coastal and Sahel states. Four working principles are operational in West African Economic Monetary Union which are as follows:

- A peg of its exchange rate to the French currency
- Free income and capital transfers within the zone with France
- The French Treasury Promises to lend Euros to the Central Bank of West African States Banks if they exhaust own foreign exchange reserves.
- The Central Bank of West African States must deposit at least 50% of its foreign currency reserves in a special "Operations Account" of the French Treasury, though this condition was lifted in 2019.

A. *WAEMU Members*

WAEMU consists of eight relatively small states with similar market structures of which all but Guinea Bissau (Portuguese) share French as an official language. Some annual economic statistics of WAEMU's member countries are summarized in the table below.

Table 1: Overview of WAEMU Member Countries

	Population (2020, in mln)	GDP per capita (2019, current US\$)	Real GDP growth (2019, %)	Current- account balance (2019, % GDP)	Trade balance (2019, current US\$ bln)	Main exports (2019)
Benin	12.12	1,220	6.9	-4	-0.636	Raw cotton, gold, petroleum oils
Burkina Faso	20.90	796	5.7	-3.2	-0.555	Gold, zinc ore, raw cotton
Ivory Coast	26.38	2,276	6.2	-2.3	0.674	Cocoa beans, natural rubber, cashew nuts & coconuts
Guinea Bissau	1.97	7650	4.5	-8.9	-0.213	Cashew nuts & coconuts, gold, frozen fish
Mali	20.25	879	4.8	-7.5	-2.12	Gold, raw cotton, other oil seeds
Niger	24.21	554	5.9	-12.2	-1.92	Other oil seeds, gold, uranium
Senegal	16.74	1,436	4.6	-9.6 (2018)	-3.34	Petroleum oils, gold, phosphoric acid
Togo	8.28	893	5.5	-0.8	-0.596	Petroleum oils, other oil seeds, electrical energy

Source: World Bank Database, Atlas of Economic Complexity

Apart from Ivory Coast, member states' trade balance over the past 20 years has been consistently negative (see Graph 1). WAEMU states also perform relatively poor on Economic Complexity measures, as captured by the Economic Complexity Index (ECI) and Complexity Outlook Index (COI) in Graph 2. The ECI summarizes a country's capabilities as regards production possibilities while the COI reflects the availability of good diversification opportunities for its export basket. The graph shows that WAEMU states have remained within the negative ECI and COI zone indicating little space to improve and few opportunities for economic diversification. For most WAEMU countries, the arrows also direct to the lower

left of the graph, meaning that countries have become even less complex between 2015-19.

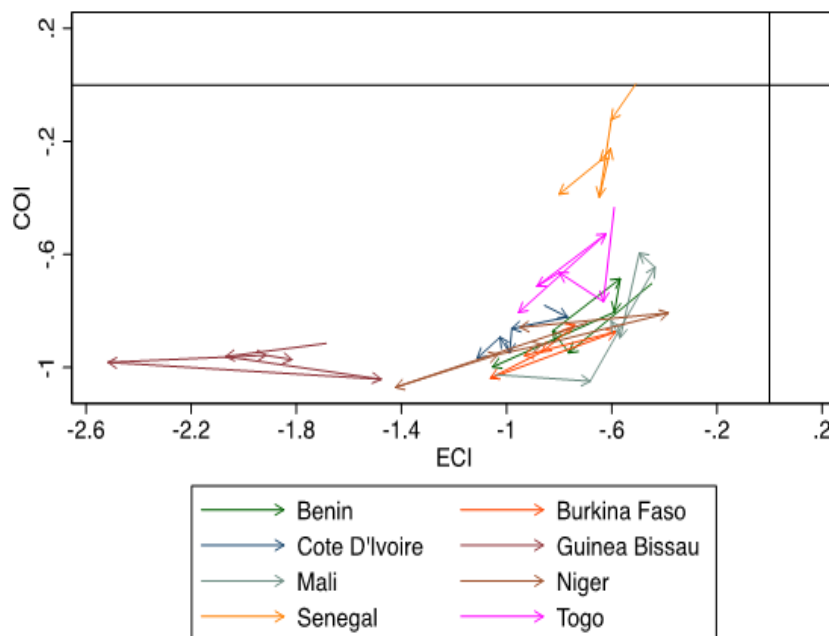


Figure 1: Trade Balance of WAEMU Countries from 1996-2019

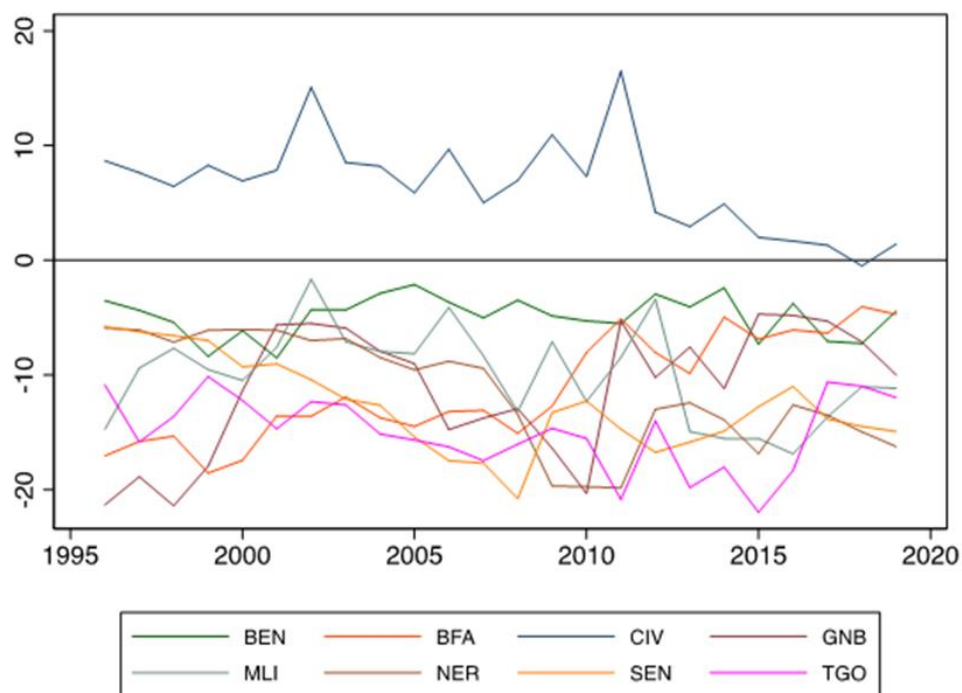


Figure 2: ECI and COI Evolution of WAEMU Countries between 2015 and 2019

B. *Exports Destination of WAEMU*

Europe is the principal market, absorbing about 50 % of WAEMU exports in 2019, followed by Asia (25 %) and the rest of Africa (22 %). The share going to other WAEMU countries is modest:

Table 3: Destination of Exports

Destination	2019 (CFAF bn)	% of total exports
Europe	8,145	46 %
Asia	4,072	25 %
Africa*	3,828	22 %
of which WAEMU intra-trade	2,683	15 %
Americas & Other	1,615	9 %

*"Africa" includes all African countries, not just WAEMU.

C. *Goals and Objectives of West African Economic and Monetary Union (WAEMU)*

The West African Economic and Monetary Union (WAEMU) is aimed at building a harmonized and integrated economic space in West Africa, within which is guaranteed total freedom of movement of people, capital, goods, services and factors of production. After the establishment in 1994, the West African Economic and Monetary Union (WAEMU) has made notable progress in meeting its goal to develop a competitive common market based on the free flow of persons, goods, services, and capital.

1. *WAEMU has five main objectives:*

- To increase the economic and financial competitiveness of its member States in the context of an open, competitive market and a rationalized, coherent, judicial environment;
- To ensure the convergence of macroeconomic performance and policy across member States, with the institution of a multilateral control procedure;
- To create a common market for the member States based on the free flow of people, goods, services and capital, the right of individuals to set up businesses within the area, a common external customs tariff and a common trade policy;
- To promote the coordination of national sectorial policy and implementation in the areas of agriculture, environment, transport, infrastructure, telecommunications, human resources, energy, industry, mining and crafts; and
- Where necessary for the smooth operation of the common market, to harmonize legislation across member States, particularly the fiscal system.

Other objectives include the construction, in West Africa, of a harmonized and integrated economic space, within which is ensured a total freedom of movement of people, capital, goods, services and factors of production, as well as the effective enjoyment of the right of exercise and establishment for the liberal professions, of residence for citizens throughout the community territory.

III. CHALLENGES OF WEST AFRICAN ECONOMIC AND MONETARY UNION

The globalization of the world economy is perhaps the most important trend which underlies all the current condition for the economic development of a country. It offers excellent opportunities to all countries especially those in sub- Saharan Africa, enabling them to increase their productivity and to accelerate their economic development. This can be achieved by integrating member states in the global economic activities and international trade, so that by creating large markets small businesses are allowed to reach their optional size. Thus, the pursuit of the goals and objective of WAEMU's establishment has been faced with many challenges over the years. Member states are faced with challenges in trade openness, stringent government policies and industrial productivity.

According to Conrad (2022), the pursuit of the goal of WAEMU is faced with several constraints as follows:

a. Low average cost as well as lower consumer prices
b. Low availability and quality of physical and technological infrastructure
c. Absence of investment supervision structures and business assistance
d. Insufficiency of public and private investment
e. Difficulties to access the commodity market
f. High cost of factors of production
g. Difficulties in accessing the so- called 'conventional bank financing
h. Problems of political instability and corruption
i. Weak capacity of institutions to carry out guaranteed reforms
j. Inconsistent industrial policies

A. *Conventionally, member countries of WAEMU are faced with the following dilemma.*

- Allow fiscal activities of operate freely at the risk of violating the stability pact or strictly abled by the stability pact at the risk of neglecting some fiscal prerogatives.
- To make a choice between counter cyclical activism and respect for major fiscal balances. WAEMU member states undoubtedly opted for discipline in order to consolidate their public fineries maintaining debt sustainability.
- In height of static optimality criteria (Mundell, 1961; Mc Kinnon, 1963: Kennen, 1969) and optimality dynamics (Frankel and Rose, 1998), the WAEMU zone is far from attaining its optimum level after several years. This is evidenced by the extremely low level of Intra – zonal trade (13%), Low diversification of production structures and inability of states to efficiently and rapidly absorbs the structural shocks specific to their economies, the absence of a developed financial system, and the persistence of poverty which has worsened in some economies.

It therefore seems that restrictions on the use of the fiscal instruments have prevented the fiscal policy from being effective. One could wonder about the credibility of the fiscal criteria in force in WAEMU and a drive to establish an appropriate policy mix.

IV. ECONOMIC BENEFITS AND ACHIEVEMENTS OF WAEMU

A. Economic Benefits of WAEMU

Some of the benefits that has accrued over the years from the establishment of WAEMU since 1994 despite the several obstacles are as follows:

- Monetary policy management: The West African States Central Bank Management by nationals of the WAEMU member states has put in place effective monetary policies that has sustained the union till date and also been of tremendous support for member states.
- Trade effects: A major attraction of monetary integration is its trade creating potentials within and beyond the constituent states by removing some of the payments obstacles to trade.
- Capital flows: Given the fixity of exchange rate under a monetary union arrangement, speculative capital flows would be eliminated, thereby relieving the authorities of frustrations in their monetary control.
- Capital market gains: Monetary Union involving a common currency is tantamount to the unification of the national capital markets of the integrating countries. This promotes market deepening, greater competition, and more instrument opportunities.
- Banks, brokerage firms, issuing houses and other capital market operators can expand their operations rapidly for investable funds held by savers in cross-border accounts
- Saving of foreign exchange reserves: Being a member state of monetary unions implies that foreign exchange reserves would be saved. This may not be very visible in the early state; it will become increasingly significant with greater cooperation among the member state of the General union.

B. Achievements of WAEMU

WAEMU plays a significant role in regional integration. Some of the role include; fixed exchange rate regime, effective capital controls, foreign exchange reserves, sensible data matching and forecasting capabilities, coordinate monetary policies, growth in financial sector and increase in banking assets portfolio. Nevertheless, the major achievements of WAEMU since inception include;

- Signature of constitutive Act- 1994.
- Revised Treaty- 2003.
- Addition Act establishing the WAEMU common policy on space and security 2013.
- Adoption of WAEMU Peace and Security Action plan- 2016.
- Security and Intelligence cooperation framework agreement between WAEMU and member state- 2018.

- Signing of Memorandum of Understanding between ECOWAS and WAEMU for conflict and crisis prevention in West Africa 2018.

V. SUMMARY AND CONCLUSION

A. Summary

The West African Economic and Monetary Union (WAEMU) comprise eight Member States: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

The West African Economic and Monetary Union (WAEMU) was established by the Treaty signed in Dakar on 10 January 1994 by the Heads of State and Government of seven West African countries using a common currency, the CFA franc. The Treaty came into force on 1 August 1994 following its ratification by the Member States.

A. The main stages of integration:

1. 10th January 1994:

The signing, in Dakar, of the Treaty, of the West African Economic and Monetary Union (WAEMU).

2. 1st August 1994:

Entry into force of the WAEMU Treaty.

3. 10th May 1996:

First meeting of the Conference of Heads of State and Government in Ouagadougou.

4. 2nd May 1997:

Accession to membership by Guinea-Bissau, which became the eighth Member State of WAEMU.

5. 29th January 2003:

Adoption of the modified WAEMU Treaty.

6. 27th March 2006:

10th regular session of the Conference of Heads of State and Government of WAEMU in Niamey, at which UNESCO was represented. On that occasion, the Conference took note of the adoption by the Council of Ministers of a Directive on "access by students to the public higher educational institutions of the Member States under conditions of equal treatment".

B. Conclusion

This study devoted to the analysis of the main initiatives of the WAEMU with a view to strengthening its regional integration shows on the one hand that many initiatives have been undertaken in favour of integration. The Union Commission has undertaken institutional reforms to strengthen its organizational performance. It also works to mobilize financial resources for community development actions. It has even participated in concrete achievements for the benefit of the populations through actions aimed at improving the

availability of economic infrastructure and production factors, strengthening the movement of people and goods and the right of establishment, the improvement of the business environment and the preservation of natural resources, etc. The Union has built Joint Control Posts (JCP) with a view to reduce the time it takes for goods to cross borders to promote the free movement of goods. In terms of consolidating regional economic governance, there are actions that have established a sound macroeconomic framework and an effective customs union. Several other actions have been undertaken in the field of human development and in other sectors such as land use planning, transport, etc. Thus, several initiatives have been taken concerning macroeconomic policies such as the construction of common markets, the harmonization of legislation and the implementation of sectoral policies.

However, on the other hand, research shows that despite all these initiatives, regional integration in the WAEMU space still remains a challenge because one can't speak of true regional integration when intra-community trade is still very low. This situation is explained by exogenous factors, in particular the influence of France for decades in the region, but above all by a lack of political will at the level of the States for the application of community provisions with a view to facilitate community trade.

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