Insight and Innovation in International Development

Elias T. Ayuk
Samuel T. Kaboré
Editors

Wealth through Integration

Regional Integration and Poverty-Reduction Strategies in West Africa

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The work presented in this book draws from papers presented at the conference, whose scientific committee and organizational committee members are listed hereafter.

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Acronyms and Abbreviations

ACBF	African Capacity Building Foundation
AfDB	African Development Bank
AFD	French Development Agency
AFRACA	African Rural and Agricultural Credit Association
AIDS	Acquired Immune Deficiency Syndrome
BCEAO	Central Bank of West African States
BRS	Banque Régionale de Solidarité
BRVM	Bourse Régionale des Valeurs Mobilières (regional stock market)
CASHPOR	Credit and Saving for the Hard-Core Poor
CEMAC	Central African Economic and Monetary Community
CERDI	International Development Research Studies Centre
CERISE	Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Epargne
CET	Common external tariff
CFA	African Financial Community
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
CIRAD	Centre de Coopération Internationale en Recherche pour le Développement
CJEC	Court of Justice of the European Community
CNCA	Caisse Nationale de Crédit Agricole
CNRS	National Centre for Scientific Research
CODESRIA	Council for the Development of Social Science Research in Africa
COMESA	Common Market for Eastern and Southern Africa
CREPOL	Centre for Research in Political Economy
CRES	Consortium pour la Recherche Économique et Sociale
CSGP	Convergence, Stability and Growth Pact
DCF	Development and cohesion fund
DFS	Decentralised financial system

EAC	East African Community
EBCVM	Burkina Faso survey on household living conditions
ECA	Economic Commission for Africa
ECCES	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
EPD	Economic Policy Department
EU	European Union
FAARF	Support fund for women's gainful activities
FAO	Food and Agriculture Organisation of the United Nations
FASEG	School of Economics and Management
FDI	Foreign direct investments
FENU	United Nationas Capital Development Fund
FZ	Franc Zone
GCF	Gross capital formation
GDP	Gross domestic product
GMM	Generalised method of moments
GREAT	Groupe de Recherche en Economie Appliquée et Théorique
GTZ	German Development Cooperation
HDI	Human development index
HICP	Harmonised index of consumer prices
HIES	National household income expenditure survey
HIV	Human immunodeficiency virus
ICOR	Incremental Capital Output Ratio
IDRC	International Development Research Centre
IFPRI	International Food Policy Research Institute
IGA	Income-generating activity
ILCR	Incremental Labor to Capital Ratio
IMF	International Monetary Fund
INADES	African Institute for Economic and Social Development
INSD	National Institute of Statistics and Demography
INSTAT	Malian National Statistics Institute
ISSP	Institut Supérieur des Sciences de la Population
MDG	Millenium Development Goals
MEF	Ministry of Economy and Finance
MFB	Ministry of Finance and Budget
MFI	Micro-finance institutions
NMU	National micro-finance unit
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development

OLs	Ordinary least square
ONG	Non-governmental organisation
OPA	Observatory of abnormal practices
PARSEP	Projet Régional d'appui aux cadres nationaux de suivi évaluation des stratégies de réduction de la pauvrété
PAT	Poverty Assessment Tool
PPP	Purchasing power parity
PPTE	Heavily indebted poor countries
PTCI	Inter-university postgraduate degree programme
PWR	Participatory Wealth Ranking
QUIBB	Core Welfare Indicator Questionnaire
R&D	Research and development
RADF	Regional Agricultural Development Fund
REC	Regional economic community
RIAF	Regional Integration Aid Fund
RME	Rural micro-enterprises
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEF	Small Enterprise Foundation
SHD	Sustainable human development
SKS	Swayam Krishi Sangam
SME/SMI	Small and medium enterprise/small and medium industry
SNV	Netherlands Development Cooperation
SOFITEX	Société des Fibres Textiles
SYSCOA	West African accounting system
TFP	Technical and financial partner
TFP	Total factor productivity
UMAC	Central African Monetary Union
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USA	United States of America
USAID	United States Agency for International Development
VAT	Value-added tax
VIP	Visual Indicators of Poverty
WADB	West African Development Bank
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union
WB	World Bank

WBI	World Bank Institute
WEEC	Women Economic Empowerment Consortium
WFP	World Food Programme
WHO	World Health Organisation

Preface

In December 2008, when I met with the president of the International Development Research Centre (IDRC), I was far from imagining that the work we wanted to do together would become a reality so quickly. As early as the beginning of 2009, we were given a unique opportunity to share our respective experiences through the celebration, throughout 2009, of 15 years of the West African Economic and Monetary Union (WAEMU). For the IDRC, this was a good opportunity to make the large network of researchers it has been supporting for years available to support a regional ambition. For the WAEMU, celebrating this anniversary was the occasion to step back and take a critical look at the past 15 years of regional integration efforts.

Once the decision was made, it was time to make this shared determination a reality. What was said was done, and with contributions from our respective specialists, preparation for the conference *Regional Integration and Poverty-reduction Strategies in WAEMU Member Countries* conference kicked off.

After several preparatory meetings and a call for proposals, the conference was held on December 8 to 10, 2009 in Ouagadougou, Burkina Faso, attracting over a hundred researchers, journalists, representatives of civil society, national leaders and WAEMU experts. During this conference, the development, implementation and monitoring of regional poverty-reduction policies were compared and discussed by researchers, journalists and various members of civil society.

These three intense days of discussion enabled WAEMU to take a look in the mirror, focussing on a number of equally important questions:

Has WAEMU made the best choices and adopted good methods?
Has WAEMU been sufficiently attentive to the populations and responded to their expectations?
Has stakeholder commitment to the integration process been equal to the challenges?
How can we envision the future of the Union so that its populations are more at the heart of regional policies?
How can information about the WAEMU be shared with the Union's citizens?

Participants in the conference attempted to find hard-hitting answers to these questions. Researchers, the media and members of civil society spoke candidly. The Union's choices were examined in minute detail. Some elements of these analyses deserve to be recalled: the convergence of WAEMU Member States remains a great challenge, poverty in the zone persists despite the institutional and regulatory advances that have been made, and weak intra-community exchanges remain a concern despite internal tariff removal.

In addition, the Union's strategic choices were critically reviewed and the issue of the various parties' participation in developing and evaluating community policies was the object of long discussions and analyses. Many of these are presented in this book.

Regarding this last point, it is interesting to highlight that this book takes into account relevant recommendations made by researchers while learning from this experience that is still rare in West Africa, and demonstrates to what extent discussions among researchers, decision-makers and journalists are essential in enabling as many people as possible to make quality contributions to the process of regional integration.

This book is filling a need and also demonstrates the need and urgency of setting up regular exchange platforms among decision-makers, researchers and the media so that regional integration not be a matter for a select few but a participative process that involves as many people as possible.

It is also an excellent—and even indispensable—reference for researchers and the general public, as well as for the leaders of WAEMU and other African integration institutions.

This is why the WAEMU Commission, which made every effort to make the joint work possible, is happy to have contributed to producing this reference book on regional integration in West Africa. This is a good opportunity to congratulate the Canadian IDRC and the CIDA, the researchers, the Member State decision-makers and the journalists for this major intellectual contribution. Let them all be thanked here for their involvement, which will, I am sure, contribute to a regional integration that is advancing slowly but surely.

President of the WAEMU Commission Soumaïla Cissé

Chapter 1
Introduction: Why Integrate?

Elias T. Ayuk and Samuel T. Kaboré

Abstract This book explores two issues that are topical in developing countries: regional integration and poverty-reduction strategies. Economic grouping provides opportunities for improving the living conditions of populations. They are accompanied by allocation and accumulation effects, which are two major beneficial pillars of regional integration. The 15 chapters in this book do not only examine what is required for the convergence of African economies, which constitutes an absolute prerequisite for improving the welfare of populations, but they also look at some instruments that could play a central role in poverty-reduction strategies.

I Introduction

Trade between nations has positive economic effects but can also be impeded by structural imbalances and gaps in the endowment of resources that exist between nations. Despite the large increase in global trade, the lack of a corresponding increase in world economic growth attests to the fact that current trade practices fail to lead to development. Globalisation has made it such that the different countries around the world can benefit from resources that are not available within their national borders. For developing countries, the liberalisation of trade has not yielded the expected return. In response, a new paradigm emerged, suggesting that to lead to economic growth public investment should accompany trade liberalisation. Some researchers have identified problems with this school of thought. They have

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argued that due to the very nature of the liberalisation of trade, which requires the removal of customs duties and taxes, governments in developing countries no longer benefit from the revenue that could have been generated by the tariffs and therefore are not able to supply the resources needed to make public investments. In recent years, solid arguments have been put forward to encourage developing countries to emphasise regional integration first before seeking to access the worldwide market.

The crisis the eurozone is experiencing is, in part, due to the fact that certain macroeconomic basics related to common trade zones were not respected. When new countries joined the Union, some of them did not meet the required convergence criteria. The monetary policy was too strict for some countries and too free for others. This book looks into the issues linked to regional integration in West Africa (the WAEMU zone) and should be of interest to researchers worldwide who work on this topic.

One of the key innovations found in this book is that it presents empirical data related to the efforts made by the West African Economic and Monetary Union (WAEMU) countries to converge their economies—an element that is very important for regional integration. This book also examines certain instruments that are necessary for regional integration and the way the latter have influenced poverty reduction in the Union's countries.

WAEMU was founded in 1994 to promote the economic and monetary integration of eight West African countries that shared a single currency, the CFA franc. From December 8–10, 2009, to celebrate 15 years of WAEMU's existence, it organised a regional conference with the International Development Research Centre (IDRC) and the Canadian International Development Agency (CIDA) on the topic of "regional integration and poverty-reduction strategies". The IDRC and the CIDA supported research in four West African countries focussed on poverty-reduction strategies. The various chapters in this book were written by researchers and were selected by a scientific committee following a competitive call for papers. The papers were presented at the conference and were discussed within the region's scientific community.

II The Concept of Regional Integration

Regional integration can take very different forms depending on its stage and scope, which refers to the number of countries involved (Balassa 1961). The five forms or stages of regional integration include free-trade zones, customs union, common market, economic and monetary union and complete political union. Member countries in free-trade zones remove trade barriers among themselves but maintain their own national barriers against third countries. In customs unions, member countries remove the obstacles among themselves while also adopting and applying common customs duties to third countries. The situation in common markets is the same as in customs unions, except that in addition, the member countries allow full production factor mobility within the union. The characteristics of common markets apply to economic and monetary unions, including a full harmonisation of monetary, budgetary, industrial and social policies. These unions also implement a common external relations policy. Complete political union consists of integrating a region's political and economic affairs.

Among the advantages and benefits associated with regional integration, one can mention benefiting from economies of scale, improving competitiveness and attracting investment. The literature contains contradictions regarding the manner in which the openness of trade, which is often linked to regional integration, could affect economic growth and therefore play a role in reducing poverty (Mealy 2005; Rodrik and Rodriguez 2001; Winters et al. 2004). One of the negative consequences of regional integration that has been advanced is the closing of local industries, which leads to unemployment (Balassa 1961).

Regional integration has followed a variety of models around the world, which have led to successful experiences as well as bringing to light key problems linked to the process. In Europe, political determination and a robust institutional set-up led to huge markets and the free circulation of goods and services. The recent crisis in the eurozone brings to the forefront crucial issues that can arise when the economies are of different sizes and/or when certain countries have larger debt than others. In Latin America, Mercosur experienced an increase in intra-regional trade and investment flow, set up a common external tariff structure, formed a negotiation bloc and promoted the consolidation of the democratic process and the harmonisation of macroeconomic policies (Paiva and Gazel 2003). Some of the gains stemming from the common market and the coordination of economic policies experienced setbacks due to financial troubles in the region. The North American Free Trade Agreement (NAFTA), which places less emphasis on formal institutional cooperation, raised questions about the momentum of synergy in institutional cooperation and economic interdependence. Mexico benefited from these measures by adopting a stronger policy framework. There was an increased flow of cross-border trade that contributed to greater synchronisation of Mexico's economic cycles with those of the United States and Canada. Asia's experience seems to have been based on "the market" with less emphasis on strengthening institutions. Emphasis was placed on intra-industry rather than inter-industry trade and cross-border trade flows.

African regional groupings have not experienced much success. This is due to traditionally weak intra-regional trade on the continent, to serious macroeconomic imbalances, to the burden of foreign debt, the over-evaluation of the currencies, the lack of funding for trade and a tight fiscal base, with customs duties representing a substantial source of revenue. The import substitution protection strategies adopted by the majority of countries since independence have led to a multitude of regulations restricting trade, such as licences, currency allocation, special taxes on acquisition, trade and deposits. As a result, the economic context has not been favourable to the development of regional commitments. One can note, nonetheless, that some progress has been made, such as the free circulation of goods and people and the implementation of a common external tariff.

In sub-Saharan Africa, there are around 14 regional trade zones. The four largest, each at a different stage in their move towards integration, are the West African Economic and Monetary Union (WAEMU), the Southern African Customs Union (SACU), the Central African Economic and Monetary Union (CEMAC) and the East African Community (EAC). These four groups count over 24 countries. There are also four other regional groups that cover a total of 53 countries that are at various stages of progression towards a free-trade zone. These are the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). These groupings are facing a number of challenges that include implementing the signed agreements, the multiplicity of affiliations, the need for mechanisms to compensate for loss of tax revenue, implementing clear procedures to face non-tariff-based barriers, and the lack of means to support regional integration (Mfunwa and Mzwanele 2008).

III Theoretical Considerations

In this section, we will examine the theoretical foundation for regional integration and its connection to poverty reduction. Several authors have made theoretical contributions to the various dimensions of regional integration and to their effects. This section briefly summarises these contributions and lists the main advantages expected from the integration process.

The theoretical basis for trade among nations dates from the economist Ricardo's theory of comparative advantage. According to Ricardo, a country will export the goods with which it has a comparative advantage. A difference in technology is, therefore, the basis for the trade. The direction of the trade depends on a relative comparison of isolated prices (without trade). It goes without saying that consumers in the importing country benefit, as they pay a lower price than they would have paid if the product were to have been produced in their own country. According to the Ricardo model, if two countries have identical technology, there is no comparative advantage and therefore no need for trade.

The Ricardo-Viner model suggests that even if two countries have identical production technologies, the fact of having a larger endowment of factors could create a comparative advantage. In this model, there is one factor that is mobile and factors that are specific to each sector. The distributive effects of trade and tariffs are specific to each sector.

Viner (1950) demonstrated, in the context of customs unions, that regional integration could lead to "the expansion of trade" and to the "diversion of trade". Expanding trade results from new commercial opportunities created by movement of the demand from the high-cost country towards the low-cost country. Cernat (2001) demonstrates expansion of trade for three African commercial blocs, the COMESA, the ECOWAS and the SADC. A study by Gbetnkom (2008) shows the positive overall impact of economic integration on the creation of trade flows in the CEMAC zone. In certain cases, partner country production can be replaced by low-cost importations coming from outside the partnership zone. This situation denotes diversion of trade that does not benefit consumers.

Heckscher-Ohlin-Samuelson present a long-term model that tries to explain the composition of trade between countries and how trade is involved in revenue distribution within the countries. The model explains what determines the comparative advantage and demonstrates that the difference in production factor endowment is a basis for commercial trade between countries. A country will export the goods produced intensively with abundant factors and will import the goods produced intensively with less abundant factors.

Balassa (1961) worked on the theoretical foundation for economic integration. For this author, trade barriers between markets lessen with an increase in economic integration. The author puts forth that common markets between countries, with the free circulation of production factors, naturally generate demand for more integration.

Krugman (1993a) states that the liberalisation of trade enables countries to specialise by taking into account their comparative advantage and possibly also a divergence in trade cycles in the union's countries. Krugman (1991) also demonstrates that trading blocs often have a positive effect on people's welfare.

In a 1998 study, Frankel and Rose stipulate that commercial links and monetary integration reduce the asymmetry of clashes between countries. In this way, strong economic integration is accompanied by a strong correlation in economic cycles.

Baldwin (1997) identified two theoretical advantages that justify the formation of trading blocs: the allocation effect and the accumulation effect. The allocation effect refers to more efficient allocation of resources resulting from the elimination of trade obstacles in the context of regional integration. Indeed, according to economic theory, in a competitive economy, demand for a product channels productive resources towards the production of the product. This demand is therefore an important signal between consumers and producers. However, tariff and non-tariff barriers between countries confuse the signal. Regional integration that is accompanied by the elimination of obstacles to the circulation of persons and goods therefore generates the efficient allocation of resources.

Baldwin (1997) also notes a corollary with the allocation effect—the "scale and variety effects". At the time of import-replacement policies, protecting inefficient industries was a regular practice in developing countries. It led them to maintain in place enterprises that, in several cases, were operating at an inefficient scale. Regional integration, with markets that open within the grouping that accompanies it, reduces this protection and can help, through the reallocation of resources, to rationalise entire industries. It goes without saying that the creation of vast markets could enable small enterprises to reach their optimal size. That could engender a decrease in average costs and also in consumer prices.