West Africa Institute

Avenida da Liberdade e Democracia,
Nº 9 – 5º andar Praia
Achada Santo António

BP 396- A
Cape Verde

Phone: +238-(0)262-40-58
www.westafricainstitute.org

Rheinische
Friedrich-Wilhelms-
Universität Bonn

Center for European
Integration Studies

Walter Flex-Straße 3
53113 Bonn

Phone: +49-(0)228-73-1810
www.zei.uni-bonn.de

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Center for European
Integration Studies

Kocra L. Assoua

The Nexus between Political Instability and Monetary Sustainability

The Case of a West African Monetary Union

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Introduction

The increasing globalization of economies has forced a large number of countries to join efforts in order to strengthen their bargaining power towards the world economy. Following the successful launch of the Euro, as the single currency of the European Economic and Monetary Union (EMU), there has been a renewed interest of African countries in monetary integration. In West Africa, the need to create a monetary union has long been perceived as a desirable step towards regional integration, which will boost the regional economy and maintain sustained economic growth for the entire sub-region. It is against this background that ECOWAS member countries agreed in 2000 to launch the project of establishing a single currency (ECO), which shall include all member countries until 2020. To that end, ECOWAS authorities have taken a number of measures, including the establishment of both, the West African Monetary Institute (WAMI) and the Stabilisation and Cooperation Fund (SCF), as well as the ratification of the protocols on the creation of a West African Monetary Zone (WAMZ) and a West African Central Bank (WACB).

Despite this growing impetus for regional monetary integration in West Africa, it is worth noting that forming a monetary union has costs and benefits that have long been debated in academic literature. The assessment of the literature indicates that the discussion on the desirability of a West African Monetary

Kocra L. Assoua
Kocra L. Assoua is a Senior Fellow at the West Africa Institute (WAI) and a Professor of African Studies at the University of Bayreuth, Germany. He holds a PhD from the University of Siegen, Germany. Prof. Assoua is specializing in development policy and in African conflict studies. He is a Member of the Academic Committee of the Bayreuth International Graduate School of African Studies (BIGSAS) and the director of the Farafina Institute.

Union encompasses positions ranging from highly favorable to distinctly critical. Consensus on the advisability of creating a monetary union in the West African region remains elusive. Most of the arguments advanced so far by scholars on this issue tend to appraise the question purely from the viewpoint of monetary economics and to focus their analysis on economic gains and losses associated with a monetary union. This approach is in line with the underlying assumption of the conventional theoretical analysis known as the "Theory of Optimum Currency Areas" (OCA) (Mundell, 1961). OCA suggests that the principal requirement for sharing a common currency is the symmetry of shocks, e.g., shocks affecting countries in a similar manner (Mundell, 1961; McKinnon, 1963, pp.717–725; Kenen, 1969). However, fulfilling these financial requirements may not be sufficient to maintain a monetary union and to ensure its sustainability; especially in the context of political instability and uncertainty as in the case of the West African region. The critical question then is: what are the implications of political instability for the sustainability of a future West African single currency?

The primary purpose of this paper is to address this question and shed light on the political and security challenges West Africa is facing with the establishment of a single currency. The basic argument of the paper is that, even if ECOWAS succeeds in establishing the monetary union, its sustainability will depend not only on the credibility of macroeconomic policies pursued in the member countries, but also on the ability of ECOWAS member states to tackle political instability. The paper argues that political instability affects the quality of governance and thus, undermines national governments' capability to meet the macroeconomic convergence criteria. Hence, pointing out the limits of the OCA theory, the paper suggests an extension of its criteria to non-monetary and non-financial variables; e.g., political instability. This is a prerequisite to ensure the sustainability of a West African Monetary Union.

The structure of this paper is as follows: Section 2 presents the background and institutional arrangements for an ECOWAS monetary union. Section 3 reviews the related literature. Section 4 describes the current political, security and governance situation in the West African region as well as the implications of political instability for the sustainability of the monetary union. Section 5 concludes and makes some suggestions regarding the way forward.

Background, Design and Architecture of the ECOWAS Monetary Zone

Regional economic integration in West Africa has, for a long time, claimed to be an important means to boost intra-regional trade and improve economic outcomes for member countries of the region. The establishment of the Economic Community of West African States (ECOWAS) in 1975 was a first step toward meeting that goal.[1] However, after several decades, considerations for a monetary union have become a central issue in ECOWAS discussions and negotiations. The need to establish a monetary union has, for a long time, been expressed by ECOWAS officials and discussed by a number of scholars for many reasons, including the reduction in transaction costs, a stable and predictable macroeconomic environment, and increased intra-regional trade (McLenaghan, et al., 1982; Taylor, 1994; Ogunkola, 1998; Jebuni, et al., 1999).

Against this background, a practical first step towards creating a common currency was the establishment of the West African Clearing House (WACH) in 1986, which was later transformed into the West African Monetary Authority (WAMA). Its mandates include among others: to enhance monetary cooperation and consultation among member states; to facilitate the harmonization and coordination of monetary and fiscal policies as well as structural adjustment programs; to initiate and promote policies and programs related to monetary integration in the sub-region; and to ensure the monitoring, coordination and implementation of the ECOWAS Monetary Cooperation Program (EMCP). The EMCP was established by the Authority of Heads of State and Government in Abuja (Nigeria) in 1987 in furtherance of the monetary integration initiatives. Its objective was to harmonize the West African monetary system through the observance of a set of macroeconomic convergence criteria that would ultimately result in strengthening the economies of the member states.

In a bid to consolidate and quicken the monetary integration process, the Francophone countries established the West Africa Economic and Monetary Union

1 ECOWAS member countries are the following: Benin, Ghana, Gambia, Guinea, Guinea-Bissau, Cote d'Ivoire, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal, Togo, Burkina Faso, and Cape Verde. Mauritania withdrew in 1999.

(WAEMU) in 1994.[2] All the WAEMU countries, with the exception of Guinea-Bissau, share a common French heritage in their legal and administrative systems. In addition, they have maintained the common currency - the CFA Franc - inherited at the time of independence. They have a common monetary policy, which is implemented by the West African Central Bank (Banque Centrale des Etats de l'Afrique de l'Ouest, BCEAO). The French Treasury guarantees the convertibility of the common currency (Fouda and Stasavage, 2000, pp.221-33; Couharde et al., 2012).

A first step towards monetary integration of the whole West African region was the adoption of a two-track approach by the summit of Heads of State and Government in Lomé in 1999. One year later, in April 2000, this was followed by the Accra Declaration, in which the non-WAEMU countries, namely, Gambia, Ghana, Nigeria, Guinea and Sierra Leone agreed to form a second monetary zone, the West African Monetary Zone (WAMZ). WAMZ would eventually merge with WAEMU to form a single ECOWAS monetary zone called the ECO.[3] The rationale behind the decision was that the merger of these two monetary zones within West Africa would facilitate the establishment of the single monetary zone.

The mission of the WAMZ is to guarantee the establishment of the single monetary union characterized by a common central bank and a single currency to replace the existing national currencies in the member countries. An important prerequisite for the timely and effective implementation of the road map to a single currency in the WAMZ was, however, the commitment of the candidate countries to pursue appropriate monetary and fiscal policies as well as rigorous implementation of the structural and institutional policies under the ECOWAS Multilateral Surveillance Mechanism.[4] In this regard, the West African Monetary Institute (WAMI) was created in 2001 to oversee the convergence criteria that had to be fulfilled before the launch of the ECO. Apart from carrying out the multilateral surveillance of macroeconomic performance, the WAMI was also in charge of establishing the status of the Central Bank of West Africa, and designing the architecture and policy frameworks of the WAMZ monetary union. For the launching of the monetary union, the following primary and secondary criteria were expected to be met (see table 1 & 2) (WAMA, 2010).

Criteria	Target
Inflation Rate	Single digit
Fiscal Deficit/ GDP	≤ 4%
Central Bank Financing of fiscal Deficit as % of	≤ 10%
Gross External Reserves in Month of Import	≥ 3 months

Table 1: Primary criteria

Criteria	Target
Non Accumulation of Domestic Arrears/Liquidation of Existing Domestic Arrear	
Tax Revenue/GDP Ratio	≥ 20%
Salary Mass/Total Tax Revenue	≤ 35%
Public Investment from Domestic Receipts	≥ 20%
Real Interest Rate	> 0
Exchange Rate Stability	≥ 15%

Table 2: Secondary criteria

Due to a number of difficulties, including the inability of member countries to meet the macroeconomic convergence criteria, the introduction of the common currency in the second zone was postponed many times (2003, 2005 and to 2009) (WAMI, 2006). Against this background the question as to whether the monetary union in the ECOWAS sub-region is desirable remains a subject of academic discussion.

Related Literature

Since Mundell's contribution to the economic justification for or against monetary union, the discussion on the viability of economic and monetary integration is essentially predicated on the OCA (Mundell, 1961). In an attempt to address the question of whether a monetary union should be pursued or not, most of the

2 West African Economic and Monetary Union (WAEMU) comprises of eight countries which share the same currency named "CFA franc": Côte d'Ivoire, Togo, Benin, Senegal, Mali, Burkina Faso, Niger and Guinea-Bissau.

3 Cape Verde as the remaining Member State has the Cape Verdean Escudo as its currency.

4 The Multilateral Surveillance Mechanism covers also WAEMU-countries.

literature focuses on the cost-benefit analysis of having a common currency. Assuming that regional currency unions appear most desirable among homogeneous and economically integrated countries, scholars of the OCA theory contend that monetary union is optimal, when shocks affecting countries are equal; i. e., symmetric. For this reason, a monetary union is not sustainable when member countries of the monetary union face asymmetric shocks, which may in turn lead to asymmetric responses to those shocks (Mundell, 1961).

While recognizing the relevance of the symmetry of shocks in assuring the optimality of a monetary union, some scholars maintain that the prevalence of asymmetric shocks in a region alone does not necessarily undermine the basis for monetary union (Asdrubali, et al., 1996; Sorensen and Yosha, 1998). Their basic argument is that, if member countries engaged in a monetary union are willing and able to share risk via an arrangement that allows financial transfers from booming economies towards partners in recession, then the sustainability of the monetary union is not at risk. Risk-sharing mechanisms have the potential to mitigate the negative effects of asymmetric shocks by smoothing domestic consumption. The quasi-inexistence of the standard shock-smoothing mechanisms would undermine the sustainability of the monetary union. Although the issue of risk-sharing in Africa has not been adequately and sufficiently investigated, findings of a number of studies conducted on the optimality of monetary unions in Africa reveal a high prevalence of asymmetric shocks in ECOWAS, and particularly among WAMZ (Khamfula and Huizinga, 2004; Yehoue, 2005; Buigut and Valev, 2005; Houssa, 2008). Hence, sharing a common monetary policy may be ineffective and inefficient for West African countries. A monetary union in West Africa will be only possible and optimal if risk-sharing mechanisms and institutions are set up to cope with these asymmetric shocks (Tapsoba, 2010, pp.46-48).

Assuming that the asymmetry of shocks and the existence of standard shock-smoothing mechanisms are crucial for the sustainability of a monetary union, it is worth noting that the two perspectives presented above, focus particularly on adjustment mechanisms occurring inside the monetary union and analyze a possible scenario that could happen inside the monetary union after the introduction of a new currency. By doing so, proponents of the OCA theory ignore possible impacts of shocks stemming from factors outside the monetary union. Referring to past global events, such as World War I in 1918 and the oil price shocks in the 1970s that negatively affected the world economy, a number of scholars have been increasingly interested in investigating the impacts of external shocks on macroeconomic activities. Moreover, they advocate the incorporation of both, shocks coming from outside and inside a monetary union into the analytical framework of OCA criteria (Alesina, et al., 2002; Aisen, et al., 2006; Barro and Tenreyro, 2007).

Besides the discussed existing OCA criteria, this paper, however, takes a different perspective from that of most economist scholars on the subject. Instead of analyzing whether a West African Monetary Union satisfies the traditional OCA criteria, such as the asymmetry of shocks and the existence of standard shock-smoothing mechanisms, it examines the impact of political instability and uncertainty on the sustainability of a West African Monetary Union. The role of political variables in economic performance in developing countries has, in the past few decades, aroused the interest of both economists and political scientists who tried to analyze, theoretically and empirically, the nexus between political instability and economic outcomes. Indeed, a number of empirical studies have documented the effects of political instability and uncertainty on a wide range of macroeconomic variables including, but not limited to, tax rates, provision of public good, exchange rate policy, dept and inflation policy, etc.[5] The findings of these studies suggest a positive correlation between the two variables, i. e. political instability (uncertainty) and macroeconomic activities. For example, Chen and Feng (1996) as well as Jong-a-Pin (2009) have shown that political instability, polarization of political forces and elite instability generate an uncertain politico-economic environment that negatively affects economic outcomes (Alesina and Perotti, 1996) . Hence, examining the implications of political instability and the uncertainties it may generate for a West African Monetary Union appears crucial.

5 For a detailed literature on the correlation between political instability and economic out comes, see among others: Venieris and Gupta, 1986; Collier and Hoeffler, 1998; Collier, et al., 2008; Miguel, et al., 2004; Lujala, et al., 2005.

Political Instability, Poor Governance and Security Issues

Political Instability and Monetary Union

Despite the wide consensus concerning the correlation between political instability and economic outcomes, the link between political instability and the poor macroeconomic convergence performance of ECOWAS countries still needs to be empirically investigated (Barro, 1996, p.145; Azam, et al., 1996, pp.819-829). While the West African Monetary Agency (WAMA) maintains, in its 2010 report, that the explanation for the poor macroeconomic performance lies in "inflationary pressures due to external shocks, low revenue mobilization, rising wage burden and interest payments" (WAMA, 2010, p.23), explanation for the occurrence of these economic variables rarely made mention of political instability. Thus far, the question remains: to what extent do political instability and uncertainty affect the monetary integration process?

Addressing this question first requires the explanation of what "political instability" and "political uncertainty" mean. As the notion of political instability itself appears to be elusive, this paper adopts the two-dimensional definition of "political instability" provided by Fabrizio Carmignani (2003, pp.1-2). According to Carmignani, the first form of political instability refers to "socio-political unrests; such as mass violence, politically motivated death and assassination, riots and revolutions". He argues that the occurrence of this dimension of political instability is essentially linked with ethno-political and ethno-religious conflicts, conflicting ideological and economic interests that cannot be solved through institutional arrangements. The second form of political instability identified by Fabrizio Carmignani includes elite instability (i.e. change of policymakers in parliament and government), instability of political institutions (i.e. form of the state, legal system), which may have some negative impacts on macroeconomic policies (tax rates, provision of public good, exchange rate policy and inflation policy etc.), the productivity of capital inputs, the flow of foreign financial funds and the security of property rights (Carmignani, 2003).

In line with this categorization of political instability, Jong-A-Pin (2006, p.3) also identifies the following aspects that can be described as characteristic for the West African context. These include; civil protest, politically motivated aggression, instability within the political regime, and instability of the political regime, which in turn undermine the capability of political institutions to ensure property rights, which may increase the chance of expropriation of investment profit. Indeed, this form of uncertainty undermines the capability of agents in the economy, monetary and fiscal authorities to assess and predict economic risk. In this regard, countries displaying a high level of political instability are those in which the predictability of political, economic and social risks are low due to the high level of uncertainty.

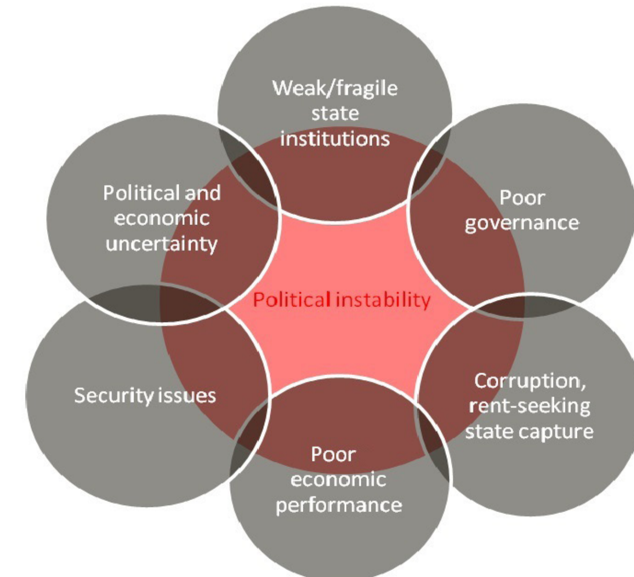

Figure 1: Vicious circle of political uncertainties (Own Compilation)

As risk assessment and predictability are crucial for pursuing sound and sustainable macroeconomic policy, it is unlikely that agents in the economy will take the risk to invest in such an environment as one that is stamped by a vicious circle of political uncertainties (figure 1). Uncertainty, in this context, can be perceived as a lack of information of the sociopolitical situation (Streb, 2001).

Indeed, when a socio-political environment does not allow access to information, it prevents decision makers and actors involved in economic and political activities from predicting and assessing adequately political, social and economic risks. Risk predictability and assessment are not only crucial

for policy formulation at both national and regional levels, but they are of huge importance for macroeconomic policy.

What are the implications of the vicious circle of uncertainties for the project of a monetary union? A more convincing way to assess the impacts of political instability on economic performance in West Africa is to examine the behavior of politicians and their policy choices with regard to macroeconomic policy in a context of high political uncertainty (electoral uncertainty, social unrest, threat of military coup, widespread popular protests movements etc.). In order to face these challenges, governments often tend to increase their populist social and military spending either in order to shape the electorate in his favor and to limit disagreements with protesters or to reduce the risk of coup (Collier andHoeffler, 2007). The higher the level of instability is, the more the probability that government will be tempted to secure and widen popular support through corruption and extra budgetary spending (Collier and Hoeffler, 2007). As a result, the sustainability of macroeconomic policy may be jeopardized and the probability that member countries of the monetary union will meet the macroeconomic convergence criteria set by the monetary authorities is low.

Such cyclical variations in macroeconomic variables have been conceptualized and developed by many scholars and are commonly referred to as political business cycles (PBCs) or political distortions (Alesina and Tabellini, 1989; Alesina, 2004). Although in West Africa, their possible impacts on member countries' macroeconomic performance has not been adequately investigated so far, their prevalence is, however, quite obvious in the context of political instability and uncertainty. This has been demonstrated by the study conducted by Tarawalie, et al. (2011, p.59) on Ghana and Nigeria, and the findings of their work can be extended to other ECOWAS countries. Debrun, et al. (2005) have also confirmed this inclination of West African governments to jeopardize sustainable macroeconomic policy for short term political goals.

While many scholars do not agree that political instability always has negative impact on investment and find rather a positive relationship between both variables,[6] one cannot deny that political instability may have some negative impacts on overall macroeconomic variables. It is obvious that, in the long term perspective, the sustainability of an economy cannot be maintained in a context of political uncertainty and regional insecurity.

Regional Security Issues and Monetary Union

A major factor that also generates uncertainty and renders risk predictability and assessment difficult in the West African region is insecurity. The ECOWAS region has “acquired the unenviable notoriety as a veritable theatre of violent conflicts, political instability and state implosions” (Fawole and Ukeje, 2005). Many countries have experienced a number of security challenges, including large scale civil wars and several insurgencies. The Biafra War in Nigeria (1967-1970), the two Liberian civil wars (1989-1996) and (1999 to 2003), the many years of civil war in Sierra Leone (1991 to 2002), the short-lived civil war in Guinea-Bissau (1998-1999) and the protracted politico-military war in Côte d'Ivoire (2002 to 2007) which was followed by the post-electoral crisis from November 2010 to April 2011, are the major large scale violent conflicts that have particularly stamped the political history of the sub-region. In addition to those conflicts, the Jihadist threat in the North of Mali may also worsen the security situation of the region in the future.

Although almost all the armed conflicts West Africa has faced were intra-state rather than inter-state conflicts, they tend to have spillover effect across national borders as has been the case in Liberia, Sierra Leone and Côte d'Ivoire (Atuobi, 2007, p.2). The widespread cross-border war and criminal activities in West Africa are particularly fueled by arms smuggling that facilitates or contributes to the occurrence of military coups. Indeed, since the 1960s, the West African region has been particularly stamped by the high frequency of coup d'état, counter coups and threats of coups. A comparison between Sub-Saharan Africa's sub-regions shows that the West African region records the highest rate of coup activity with 104 military coups experienced from 1960 to 2010 (see table 1).

6 Referring to the cases of Nigeria and Angola where foreign investment increase while political instability is not guaranteed , some scholars maintains that political instability may increase investments. See Campos and Nugent (2002/2003); Frynas (1998).

	1960-1969	1970-1989	1990-2010
West Africa	19	49	36
Central Africa	8	14	13
Eastern Africa	10	26	12
Southern Africa	0	10	6
TOTAL	37	99	67

Table 3: Number of Military Coups (successful and attempted) per Sub-region (Barka and Ncube, 2012).

Table 1 indicates that the number of military coups has increased respectively from 1960 to 2010/2012. Explanations for the occurrence of coups d'état in West Africa are many. They range from theories emphasizing the influence of sociopolitical issues and politicization of the army to arguments stressing the "coup contagion" phenomenon (Finer, 1967; Janowitz, 1968; Li, et al., 1975; Johnson, et al., 1984; Kendeh, 2004). While empirical evidence suggests that coups d'état are in decline in West Africa since the end of the 1990s, recent cases of Côte d'Ivoire, Niger, Mali and Guinea-Bissau indicate that the level of political uncertainty is still high, both in domestic as well as regional political affairs (Souaré, 2010).

This situation tends not only to undermine political stability but disrupts also economic development in the region. In line with this statement, Barro confirms that the occurrence of violent revolutions and military coups significantly affect macroeconomic variables in conflict-ridden countries (Barro and Lee, 2000). For example, Collier and O'Connell (2008) and Dore, et al. (2003) maintain that Côte d'Ivoire's military-political crisis has had some negative impacts on the economic development of some countries in the region, including Mali, Burkina Faso and Niger. Indeed, due to insecurity and limitations on circulation of people and goods, economic activities in those countries slowed to a point where many sectors were paralyzed.

Poor Governance and Monetary Union

While faced with politically uncertain domestic and regional environments, most ECOWAS countries are also confronted with governance issues. In so far as issues of monetary integration are by nature governance issues and associated with economic development and growth, one cannot avoid talking about good governance in the framework of monetary integration. The term "good governance" has become a normatively laden catchword and an evocative term yet its meaning has remained elusive. However, the use of the term by different development agencies and scholars of various disciplines suggests that good governance transcends the political realm to include the implementation of democratic principles, the respect for human rights, the transparency of decision-making, accountability and rule of law, promotion of private initiative and civil society, responsible use of resources etc. In sum, good governance is understood here as a system of administration that is democratic, effective, efficient, transparent and development-oriented (Jeffries, 1993, p.27).

One of the manifestations of poor governance in West Africa is corruption, which is prevalent among public officials and political leaders. Indeed, corruption in the sub-region has become a great source of concern due to its negative impact on the economic and political development in the region (M'Bet, 1999, pp.66–85). Most West African states have been ranked in various Transparency International Reports from 2001 to 2006 as highly corrupt in the world (see figure 2). While only three countries – Ghana, Senegal and Burkina Faso – have been ranked among the first ten least corrupt countries in Africa in the 2006 report, Nigeria and Côte d'Ivoire have been ranked as worse cases in West Africa in the 2005 report (Transparency International CPI, 2005). This is problematic as both countries play a leadership role in the regional economic integration policy, as Germany and France do in the European Union. Figure 3 shows that West African countries that are ranked as most corrupt are those that are at a critical point of state failure, hence unable to address shortcomings in macroeconomic policy.

Addressing corruption in West Africa is more than crucial as it can generate a vicious circle of uncertainties that provides the breeding ground for a range of factors that can contribute to state fragility or failure (Figure 3). These include, among others: (1) conflicting interests that can lead to conflicting demands for policy change or regime change, (2) the high prevalence of rent-seeking coupled with a high risk of state capture by political actors or groups driven by greed or ethnocentric considerations, (3) the weakening of political institutions and the undermining of ethical values and security (Le Billion, 2003).

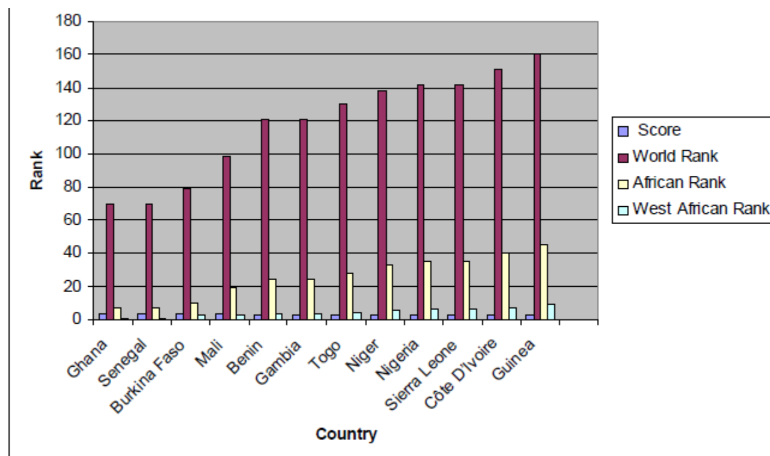

Figure 2: CPI 2006 West Africa (Transparency International CPI, 2006).

Following the argument that political instability and poor governance in West Africa represents a threat to the sustainability of a future West African Monetary Union, one might wonder why and how WAEMU has managed to maintain a currency union (CFA) successfully despite the fact that many of its member states experienced political instability and display poor governance over the last few decades. In other words, to what extent did the successive military and political crises in Côte d'Ivoire, Niger, Guinea Bissau, Togo and the recent crisis in Mali not negatively affect the viability CFA zone?

Indeed, considering the literature on the OCA, "the CFA franc zone countries would hardly qualify for an OCA given their low product diversification, low labor mobility or weak financial sector" (Hall, 2008, p.10). While recognizing that the CFA franc zone does not meet the optimality criteria, Couharde, et al. (2012, p.4) describe it, however, as a sustainable currency area that has been maintained over the last several decades.

The major explanation for the durability of the CFA-zone is that considerable efforts have been made by WAEMU to foster a convergence process of real exchange rates towards equilibrium and to facilitate adjustments of real exchange rates, at both regional and country levels in the CFA zone (Couharde, et al., 2012, p.3).

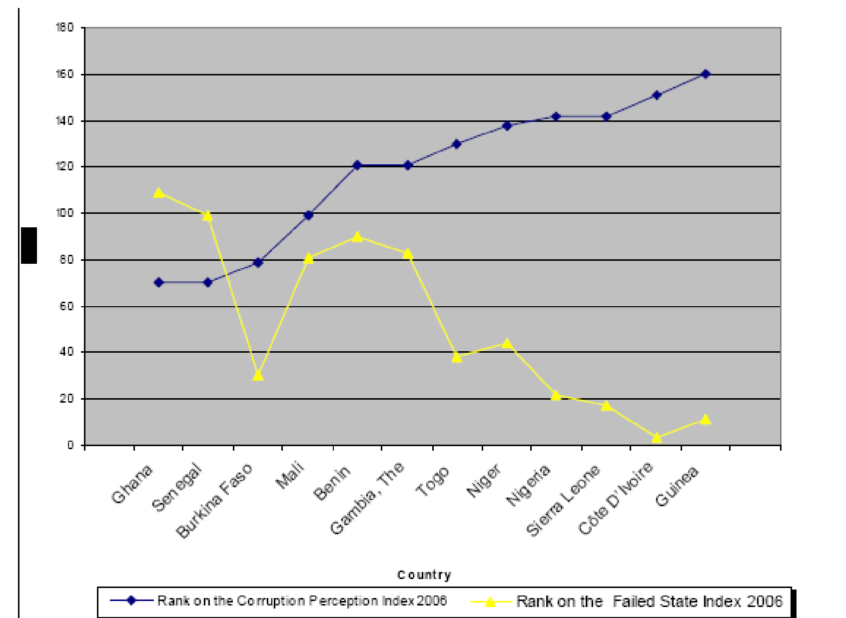

Figure 3: Corruption and State Failure Indices for the ECOWAS region[7]

Indeed, WAEMU-countries agreed to share risk via a risk-sharing mechanism that allows financial transfers from relative stronger economies in the region towards partners in recession. This is supposed to help mitigate the negative effects of asymmetric shocks by smoothing domestic consumption. However, Yehoue (2005, p.18) as well as Veyrune (2007, p.228) reveal that these arrangements in the CFA-zone were possible because of the financial contribution of France that smooths 63 percent of the asymmetric shocks in the currency area and guarantee the full convertibility of the CFA franc with the euro through a special operation account at the French Treasury. This financial support from France guarantees, in turn, the access of the CFA zone members to automatic external

7 Compiled from the CPI 2006 and the Failed States Index 2006, in: Atuobi, 2007, p.16.

financing, if necessary, and allows them to smooth out external transactions.[8] According to Veyrune (2007, p.229), the CFA-zone would not be autonomous and WAEMU central bank would not be able to guarantee its sustainability without France's financial support. Since it is unlikely that France will continue to support a future ECOWAS currency and help mitigate the negative effects of asymmetric shocks that may arise as a result of poor economic performance and governance, one can conclude that ECOWAS need a more robust and encompassing regional integration policy which will recognize political stability and regional security issues as major factors to be considered for a sustainable currency union.

The post-electoral crisis in Côte d'Ivoire in 2010/2011 was a clear illustration of the potential negative implications of political instability for the regional monetary union. It raised concerns over regional financial risks associated with monetary unions when political instability is not addressed adequately by regional member states. Indeed, as violence struck in Côte d'Ivoire, following disputed elections in December 2010, the WAEMU regional stock exchange as well as the Central Bank located in Abidjan had to suspend their operations after their offices were seized by forces loyal to the former president Laurent Gbagbo (Mark, 2011). Condemning Laurent Gbagbo`s refusal to step down and officially acknowledging the victory of Alassane Dramane Ouattara, ECOWAS decided to refuse any cooperation with the incumbent president and rather cut off his regime's access to Côte D'Ivoire's account at the regional Central Bank. This financial pressure seriously undermined the financial power of Laurent Gbagbo's regime (Mark, 2011). As a result of ECOWAs' reaction, Laurent Gbagbo threatened to abandon the regional CFA Franc in favor of a new currency (The "Monnaie Ivoirienne de Résistance", MIR) (Laing, 2011). This initiative represented a real threat to the currency union as Côte d'Ivoire is the main financial power in the WAEMU with 40% of the GDP of the zone (Aka, 2004, pp.43-58). Thus, Côte d'Ivoire's withdrawal of the WAEMU currency union would have had negative impacts on the viability of the CFA. Although this scenario did not happen, it is interesting to note that without the military intervention of France, who helped armed forces loyal to Alassane Dramane Ouattara to defeat militarily the incumbent regime of Laurent Gbagbo, the Central Bank of WAEMU would have experienced serious financial challenges.

8 It is important to note that the CFA currency union was created on political rather than on macro-economic considerations. This implies that the economic integration was not as important as the political integration in the currency area. It is only after its devaluation in 1994 that the economic dimension of the CFA-zone became crucial with the establishment of the WAEMU (Couharde, et al., 2012, p.10). It is only after the devaluation of the CFA in 1994 that the economic dimension of the CFA currency area became crucial with the establishment of the WAEMU (Clément, 1996).

This example demonstrates, again, not only that political instability represents a real threat to regional monetary policy, but it also shows that regional monetary policy can be effectively used as an instrument to address political issues. The question here is: how to avoid the instrumentalization of regional financial for hegemonic power or political ambition?

Conclusion and the Way Forward

The paper set out to explore the impact of political instability on a West African Monetary Union. It did not intend to demonstrate that political instability is a hindrance to the establishment of such a construct; it rather maintains that the vicious circle of uncertainties generated by political instability may undermine its sustainability. Although the main argument presented here is theoretical, it is the analytical approach of the paper to rely on the findings of empirical works conducted by scholars on the topic.

While recognizing that efforts to meet and harmonize macroeconomic convergence criteria are crucial to ensure the optimality of the monetary union, it is clear from this paper that political instability and the vicious circle of uncertainties represent major challenges to both government and regional authorities. It prevents national governments from focusing on relevant economic challenges the countries face. In this sense, breaking the vicious circle of uncertainties by addressing political instability and improving governance are important to ensure both the optimality and the sustainability of the ECOWAS currency area.

The recent crises in Mali, Côte d'Ivoire, Guinea, Niger and Guinea Bissau have demonstrated that the promise of regional security remains elusive. For this reason, aside economic and financial integration, political unity is an important driver of regional integration in West Africa that needs to be enhanced. To this end, it is important that ECOWAS countries condemn with unanimity and resoluteness any kind of political violence and unconstitutional political initiative attempting to undermine democratic processes and conflict regulation

mechanisms. Domestic and regional insecurity can be addressed through regional political integration and as state fragility can be compensated through political unity in times of political instability and uncertainty. Thus, it appears crucial to link monetary integration with political unity in West Africa. While the paper accepts that this is easier to be said than to be done, it claims that political stability will remain the main driving force for a sustainable monetary union in the ECOWAS region.

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