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REGIONAL INTEGRATION AND DEBT
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ISBN 0-07974-2799-6

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Tel: 263-4-796214/5

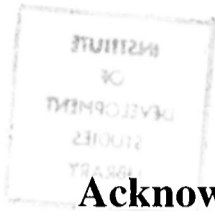
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Regional Integration and Debt in Central Africa



Acknowledgements

AFRODAD wishes to acknowledge their great debt of gratitude to Professor Germain Ndjieunde (Cameroon) for investing considerable time and effort in the research process of this report.

The report was enriched by the special contributions made by various institutions and individuals. In particular we wish to thank the secretariats of regional economic communities/regional integration schemes that the researcher visited. In particular we wish to thank ECCAS, CEMAC and COMESA for sharing their research materials and data.

The central financial support and encouragement of ACTION AID's staff was invaluable to the project. We are particularly grateful to the incisive comments and suggestions made by Ephraim Dhlembeu (ACTION AID, Malawi) and Edson Musopole (ACTION AID, Malawi).

Special mention is due to Megan Allardice for editing and proofreading the report. The report benefited incalculably from the intellectual advice and guidance of Opa Kapijimpanga, the AFRODAD chairperson. The entire report is indebted to the tireless and hardworking of AFRODAD secretariat, especially Charles Mutasa, the Research Coordinator.

Last but not least, we would like to thank all those, unnamed and not unappreciated who supported us in so many ways and helped make this report possible. AFRODAD is grateful to all the assistance we received during the study and assume full responsibility for the opinions expressed in this report.

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List of Acronyms

| | |
|----------------|---|
| ACP | African, Caribbean and Pacific |
| AEC | African Economic Community |
| AFRODAD | African Forum and Network on Debt and Development |
| BEAC | Banques des Etats de l'Afrique Centrale. (Bank of Central African States). |
| BNP | Banque Nationale de Paris |
| BOP | Balance of Payments |
| CCAC | Clearing House for Central Africa |
| CEEAC | Communauté Economique des Etats de l'Afrique Centrale (Economic Community of Central African States) |
| CEMAC | Communauté Economique et Monétaire de l'Afrique Centrale (Central African Economic and Monetary Commission) |
| COBAC | Commission Bancaire de l'Afrique Centrale (Central African Banking Commission) |
| COMESA | Common Market for Eastern and Southern Africa |
| DRC | Democratic Republic of Congo |
| ECA | Economic Commission for Africa |
| ECCAS | Economic Community of Central African States. |
| ECOMOG | ECOWAS Monitoring Group |
| ECOWAS | Economic Community of West African States. |
| EU | European Union |
| GDP | Gross Domestic Product |
| HIPC | Heavily Indebted Poor Country. |
| IMF | International Monetary Fund. |
| NPV | Net Present Value |
| PPTE | Pays Pauvres Très Endettés (HIPC) |
| REC | Regional Economic Community |
| SADC | Southern African Development Community |
| SAP | Structural Adjustment Programme |
| UDEAC | Union Douanière des Etats de l'Afrique Centrale (Customs Union of Central African States) |
| UEMOA | Union Economique et Monétaire de l'Afrique de l'Ouest |
| UNDP | United Nations Development Programme |
| WTO | World Trade Organisation |

Executive Summary

All the countries of Central Africa gained their independence in the 1960s. The need and political will to ensure the well being of these new countries naturally plunged them into development programmes. During the years following independence and into the 1980s, every country of the zone boasted a five-year development plan. However, the later period was marked by economic crises that obliged almost every nation of the zone to liberalise and adopt structural adjustment programmes (SAPs).

The crucial question at the time of independence had been how to bring about fast growth. Most of the countries adopted the regional economic integration scheme that, in principle, favours interstate trade, expanded markets, increased factor mobility and complementarity of national economies within a region. Thus, the Union Douanière des Etats de l'Afrique Centrale (UDEAC), a customs integration framework grouping six states with a common currency, was formed in 1964. The grouping was transformed into the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) in 1994 and its currency (the FCFA) has been anchored to the Euro since January 2002. The six countries are Cameroon, Gabon, Congo, Equatorial Guinea, the Central African Republic and Chad. Later, the Economic Community of Central African States (ECCAS) was formed. This new regional economic community (REC) is made up of the CEMAC states as well as the DRC, Angola, Rwanda, Burundi and São Tomé and Príncipe. Burundi, DRC and Rwanda are all members of the Common Market for Eastern and Southern Africa (COMESA) as well.

Growth and development among these nations required funding. Although faced with insufficient internal resources in the first decade of independence, external debts were moderate in Central Africa due to the fact that market prices of raw materials that are the main products of the zone did not fluctuate much. Internal conflicts and the fall in the prices of raw material towards the late 1970s, coupled with the large and costly infrastructure projects that some of these countries undertook, caused the debt problem of these nations to explode to the point that Central Africa became one of the most heavily indebted regions in Africa.

Structural adjustment programmes (SAPs), with their accompanying conditionalities were implemented as a possible solution to the external debt problem but at a particularly high cost in terms of development, social welfare and political stability. Most adjusting countries still have relatively low growth rates. They have limited success in changing their production structures or in diversifying their exports; and many have yet to witness a revival of satisfactory investment and savings rates. Their debt burden seems to grow annually. The resources offered by the Bretton Woods institutions to cushion the implementing country from adverse consequences of policy reforms are inadequate. As a result both imports and exports have declined, forcing most governments to borrow from the north. The insistence by lending institutions that the adjusting countries should borrow from abroad rather than from domestic sources only helped to increase the region's external debt burden. The ability to buy industrial raw materials from the north was curtailed with most countries using their scarce foreign currency to service existing external debt obligations.

Given this background, strong economic integration could present some opportunities for alleviating the debt problem. Firstly, increased trade among the states of the ECCAS region would allow foreign currency, which would otherwise have been used to pay for out-of-zone imports, to be saved. Foreign currency is also saved because of the incorporation of a common currency factor. This would be much more pronounced if a supranational organ for debt management were put in place for the implementation of certain disciplinary rules. A harmonised debt policy, within the framework of economic integration and in relation to global economic policy, is necessary for all the regional member states. This would need to deal with issues such as export diversification, industrialisation geared towards encouraging manufactured products, and fighting against capital flight. For all these to succeed, the different states must respect the terms of integration that they have signed.

Introduction

The end of the 20th Century was characterised by economic integration and regroupings that have now become a common phenomenon adopted by almost all countries in the world. In Central Africa, economic integration is the concern of two complementary organisations. Firstly, there is the Union Douanière des Etats de l'Afrique Centrale (UDEAC) of 1963 which, in 1994, became the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC). CEMAC is currently made up of Cameroon, Gabon, Congo, Equatorial Guinea, the Central African Republic and Chad. These members have a common currency, the Franc CFA that has been at a fixed exchange rate of FCFA 656: 1 Euro since 1 January 2002. As such, the CFA is internationally convertible through the Euro in exchange markets.

The second group, known as the Economic Community of Central African States (ECCAS), was formed in 1983. This organisation is made up of CEMAC member states along with the DRC, Burundi, Rwanda, Sao Tomé and Principe, and Angola. Each of these countries has their own currency. The region's external debt stood at around US\$ 37.44 billion in 2001. The Community has important resources to which more attention is bound to be paid following Angola's recent entry. These resources, principally minerals and agro-products, are mostly concentrated in Angola, Cameroon, Gabon and the DRC (DRC has more than 12 percent of the world's copper reserves and more than 50 percent of the world's cobalt reserves). The RECs in the region, as in other parts of Africa, have not been able to address the debt burden in an explicit manner. Wars and other unrest have compromised the role of ECCAS in some countries like Angola, Burundi, Rwanda and the DRC.

Despite the terrible situation of some of these countries, recent events have offered a glimpse of hope to the integration process of the region. For instance, the Heads of State and Government of the African, Caribbean and Pacific (ACP) states and the European Union held a meeting in Libreville, Gabon in November 1997, during which the European Union explored means of support to the ACP region. The Malabo, Guinea meeting of 24 June 1999, which was the ninth ordinary Conference of Heads of State and Government of the ECCAS, also served as an incentive to the integration process.

A study of regional integration and the debt crisis in Central Africa shows that the subregion has a lot of dependence on external markets for its primary commodities. Central Africa demonstrates failure by African governments to stem, through deliberate policy, the continued dependence of African countries on external markets that significantly hinders prospects for long term economic expansion and human development. Inevitably, the net result of unequal exchange between Central African countries and the north generate debt rather than surplus for the former. Thus, existing trade patterns serve as a vehicle for the systematic transfer of resources, value and wealth from the periphery to the centres, a situation which drives most ECCAS countries further into debt as they try to supply the economic needs of their expanding population from a dwindling resource base. The debt crisis in Central Africa is rooted within the context of unequal relations that underpin and typify capitalist relations of production.

The war and unrest in several countries of the region has led to economic imbalances and poor data. Because of insufficient data, our analysis will principally be based on the CEMAC countries.



The Current State of Subregional Integration

1.1 The Taxonomy of Regional Integration in Central Africa.

Integration can be seen as the progressive removal of discriminatory measures undertaken at national frontiers. These measures can affect the movement of goods and services as well as the transfer of factors of production, either directly or by means of the influence they exert on the economic climate in which they operate. As such measures are removed, different stages of integration can be identified, from free trade zone to political union, passing through custom's union, common market and economic union. In its pursuit of regional integration, Central Africa has followed some of these steps but has not reached political integration. The highlights of these steps are as follows:

FREE TRADE ZONE This is considered as the simplest form of economic union and involves suppressing custom's barriers, and tariff and non tariff barriers which are obstacles to free movement of goods and services among member states. Each member state retains the freedom to adhere to any customs policy vis-à-vis non-member states. Central Africa has managed to pursue this especially the CEMAC countries.

CUSTOMS UNION Is a free trade zone endowed with a common external tariff and eventually including other measures towards non-member countries. The 1964 UDEAC Treaty placed emphasis on custom's union, proposing the suppression of customs barriers between states and the establishment of a common external tariff. If national enterprises buy inputs for intermediate consumption from states of the zone, this reduces their production costs, making their goods more competitive outside, thus bringing resources into the zone. The system also helps to solve intraregional commercial exchange problems that often result in intraregional debts for member states.

COMMON MARKET In addition to the custom's union conditions, this demands a free circulation of all the factors of production, mainly capital and labour, but national economic policies are still autonomous. It has positive effects on the fundamental problems of developing countries, notably the increase in profitable foreign and domestic investment opportunities, the enlargement of the export base, improved balance of payments, and mobilisation of resources and the elimination of economic dualism. In Central Africa, this gone some way towards boosted intraregional trade which might otherwise have been conducted with the North.

ECONOMIC UNION Is the supreme state of integration of markets and goes beyond the common market to put in place harmonised, or even common, monetary, budgetary and social policies. The transformation of UDEAC into CEMAC in 1995 accomplished certain aspects of economic union by establishing an organ to control economic policy, including that relating to debt.

POLITICAL UNION Implies complete unification at the level of political organs. This stage is yet to be attained in Central Africa.

1.2 Trade between ECCAS and other Regions

Trade is examined within CEMAC, at the level of ECCAS and by making comparison with others groupings.

Table 1: Exports to other REC members and the rest of the world

| | Individual Intra-REC Exports as a share of Total Intra-REC Exports | Intra-REC Exports as a share of Total Exports to Africa | Individual Intra-REC Exports as a Share of Total Exports |
|--------|---|--|---|
| CEMAC | 1.1 | 0.1 | 1.9 |
| COMESA | 9.3 | 1.0 | 6.0 |
| EAC | 4.7 | 0.5 | 18.1 |
| ECCAS | 1.3 | 0.1 | 1.9 |
| ECOWAS | 19.9 | 2.1 | 10.2 |
| SADC | 31.3 | 3.3 | 12.8 |
| UEMOA | 5.9 | 0.6 | 11.2 |
| UMA | 8.6 | 8.6 | 3.1 |

Source: Adopted ECA (2002) Annual Report on Regional Integration in Africa: Overview Prepared for the ADFIII meeting on Regional Integration, Addis Abba.

ECCAS and CEMAC of Central Africa are among the RECs with the lowest levels of exports and imports among themselves, having 1.3 percent and 1.1 percent respectively. Intra-CEMAC and intra-ECCAS trade has been very low compared to the success of intraregional trade in the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS). The portion of exports within CEMAC as a percentage of total exports is very small. The limited infrastructure availability and networks (energy, transport and communications) is a serious hindrance, increasing the cost of doing business, pushing away investors and undermining the competitiveness of Central African products. Such a scenario does not help hasten integration or lessen the debt burden. ECCAS has been lagging behind in macroeconomic stability due to years of instability in most of its member states.

It is possible to determine the relative intensity of trade within ECCAS by comparing it to trade levels in other regional groupings in Africa and Europe. The figures are shown in Table 2.

Table 2: Comparison of trade levels in CEMAC to levels in other trade blocs (percentage)

| | 1980 | 1986 | 1987 | 1988 | 1990 | 1991 | 1992 | 1993 | 1994 |
|---------|------|------|------|------|------|------|------|-------|-------|
| UDEAC | 4.1 | 3.0 | 3.2 | 3.6 | 2.4 | 1.9 | 2.1 | 2.4 | 2.4 |
| CEPGL | 0.2 | 0.6 | 0.7 | 0.7 | 0.3 | 0.4 | 0.7 | 1.1 | 1.2 |
| ECCAS | - | - | - | - | 2.1 | 2.0 | 2.1 | 2.5 | 2.4 |
| ECOWAS | 3.9 | 3.2 | 4.0 | 4.9 | 8.3 | 9.1 | 7.4 | 10 | 10.7 |
| CEAO | | | | | | | | | |
| *UEMAOA | 6.9 | 6.5 | 8.4 | 10.5 | 9.9 | 9.9 | 9.3 | *11.8 | *12.0 |
| EU | - | 57.1 | 58.9 | 59.6 | 60.7 | 61.4 | 61.1 | 56.7 | 61.7 |

Source: UNUCED

It can be seen that trade within both UDEAC/CEMAC and ECCAS is very low compared to that in other groupings such as ECOWAS and, more especially, the European Union (EU).

1.2.1 Trade within CEMAC

**Table 3: Intra-UDEAC/ CEMAC Import- Export as Percentage of UDEAC- Global Trade
Cameroon DRCCongoGabonChadGuinea UDEAC**

| | Cameroon | | DRC | | Congo | | Gabon | | Chad | | GuineaU | | DEAC | |
|---------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|-------------|
| | m | x | m | x | m | x | m | x | m | x | m | x | m | x |
| 1967 | 1.70 | 6.10 | 15.40 | 12.20 | 2.40 | 26.30 | 9.90 | 0.60 | 25.80 | 11.6 | | | 6.80 | 8.00 |
| 1970 | 3.42 | 6.77 | 6.86 | 6.90 | 10.17 | 18.28 | 8.76 | 7.44 | 19.25 | 9.28 | | | 8.76 | 6.42 |
| 1971 | 6.30 | 6.20 | 7.20 | 3.13 | 7.08 | 11.38 | 8.37 | 6.60 | 12.04 | 9.93 | | | 7.68 | 5.85 |
| 1972 | 6.75 | 9.65 | 9.56 | 4.65 | 6.82 | 15.26 | 7.19 | 6.49 | 12.03 | 10.70 | | | 7.44 | 7.26 |
| 1973 | 8.36 | 9.25 | 7.44 | 3.56 | 10.64 | 6.30 | 9.07 | 5.94 | 14.21 | 10.80 | | | 9.38 | 6.23 |
| 1974 | 7.58 | 6.31 | 7.45 | 2.96 | 6.75 | 2.61 | 7.57 | 3.79 | 13.46 | 8.60 | | | 8.00 | 3.75 |
| 1975 | 9.18 | 11.72 | 5.75 | 7.61 | 5.41 | 1.42 | 7.85 | 5.00 | 13.15 | 9.32 | | | 8.50 | 5.52 |
| 1976 | 6.40 | 11.25 | 10.12 | 5.27 | 10.88 | 2.08 | 7.61 | 2.85 | 14.25 | 6.37 | | | 8.01 | 4.30 |
| 1977 | 6.86 | 8.64 | 23.85 | 4.83 | 1.76 | 0.46 | 5.04 | 2.90 | 7.57 | 1.77 | | | 6.83 | 3.68 |
| 1978 | 7.16 | 8.68 | 31.06 | 2.92 | 6.25 | 1.27 | 5.41 | 5.31 | 13.43 | 3.00 | | | 7.65 | 5.13 |
| 1979 | 7.01 | 6.19 | 34.29 | 0.93 | 15.69 | 1.36 | 6.60 | 3.47 | 21.93 | 9.47 | | | 9.24 | 3.42 |
| 1980 | 7.37 | 7.60 | 37.53 | 1.09 | 14.34 | 0.79 | 6.66 | 3.80 | 49.60 | 20.80 | | | 10.10 | 3.77 |
| 1981 | 5.84 | 6.60 | 24.34 | 0.50 | 6.94 | 0.39 | 2.96 | 2.243 | 3.942 | 6.20 | | | 6.67 | 2.70 |
| 1982 | 1.56 | 5.081 | 4.23 | 0.50 | 5.18 | 0.17 | 2.84 | 0.32 | 19.25 | 16.30 | | | 3.90 | 1.38 |
| 1983 | 1.88 | 5.31 | | | | | | 0.72 | | | | | | |
| 1985 | 1.01 | 6.20 | 0.01 | 0.27 | 0.06 | 0.12 | 3.35 | 0.28 | 16.46 | 5.02 | 2.40 | 0.26 | 2.31 | 1.90 |
| 1986 | 0.44 | 10.96 | 0.00 | 0.36 | | | 4.10 | 0.18 | 14.95 | 4.26 | 2.42 | 0.11 | 1.78 | 3.00 |
| 1987 | 0.35 | 11.90 | 7.36 | 0.46 | | | 6.32 | 0.21 | 12.85 | 3.40 | 10.50 | 0.03 | 2.72 | 3.63 |
| 1988 | 0.62 | 8.07 | 8.02 | 0.43 | | | 4.74 | 0.27 | 6.85 | 1.26 | 35.20 | 0.05 | 3.46 | 3.53 |
| 1989 | 0.57 | 7.30 | 11.23 | 0.40 | | | 4.80 | 0.26 | 6.73 | 1.62 | 48.50 | 0.12 | 4.46 | 3.04 |
| 1990 | 0.17 | 6.57 | 11.84 | 0.72 | 4.00 | 0.03 | 4.10 | 0.08 | 5.00 | 0.633 | 9.60 | 0.08 | 4.10 | 2.32 |
| 1991 | 0.21 | 5.70 | 7.10 | 0.41 | 2.40 | 0.02 | 3.90 | 0.05 | 9.24 | 0.303 | 4.02 | 0.08 | 3.50 | 1.09 |
| Average | 4.26 | 7.82 | 13.36 | 2.86 | 7.18 | 5.19 | 6.05 | 2.67 | 16.28 | 9.12 | 24.66 | 0.10 | 6.24 | 4.13 |

Sources: UDEAC, *Bulletin des Statistiques*, N° 22, Avril 1968, p. 544; Ndjieunde, G: IMF, *Trade Statistics Year Book 1992*
x = Intra-Union exports as a percentage of total export m = Intra-Union imports as a percentage of total imports

1.2.2 Trade within ECCAS

Existing trade patterns in Central Africa are not conducive to integration and debt reduction since they reflect the strong vertical linkages (developed-developing country) and weak horizontal linkages (between developing countries), which are symptomatic of an unequal global balance of economic power. Samir Amin (1974) contends that colonialism, as an agency of the global accumulation process, forged and sustained economic regimes, which cast colonies as permanent producers of raw materials with the sole purpose of satisfying the economic demands of the metropole. The debt crisis in Central Africa and elsewhere is rooted within the context of the unequal relations that underpin and typify capitalist relations of production.

Intra-ECCAS trade percentages are given in Table 4. The table also highlights the level of integration of each country.

Table 4: Trade within ECCAS (Percentage)

| | $V=X/GDP$ | $U=M/GDP$ | $T=X/X+M$ | $S=M/X+M$ | $G=X+M/GDP$ |
|--------------------------------|-----------|-----------|-----------|-----------|-------------|
| Angola | 2.00 | 0.03 | 98.60 | 1.40 | 2.03 |
| Burundi | 0.17 | 1.28 | 11.92 | 88.08 | 1.45 |
| Cameroon | 0.12 | 0.67 | 15.36 | 84.64 | 0.79 |
| Congo Brazzaville | 0.26 | 0.13 | 66.63 | 33.37 | 0.38 |
| Gabon | 0.11 | 0.47 | 19.00 | 81.00 | 0.58 |
| EquatorialGuinea | 0.00 | 19.68 | 0.00 | 100.00 | 19.68 |
| CAR | 0.48 | 0.19 | 72.02 | 27.98 | 0.67 |
| DRC | 0.00 | 0.44 | 40.25 | 59.75 | 0.01 |
| Rwanda | 0.02 | 0.44 | 4.48 | 95.52 | 0.46 |
| São Tome & Principe | 8.30 | 8.54 | 49.29 | 50.71 | 16.83 |
| Chad | 0.55 | 0.237 | 0.642 | 9.36 | 0.78 |

Source: Economic Commission for Central Africa Sub-regional Development Centre, policy briefing note, December 1999

E = import, X = export

V = ratio of export to GDP

U = ratio of import to GDP

T = ratio of exports to total of import + export

S = ratio of imports to total of export + import

G = ratio of total export + import to GDP

Within this broader regional setting, the table also suggests that small countries, such as Equatorial Guinea and Sao Tomé and Príncipe, are the most integrated into ECCAS, when considering that the ratio of integration (G) equals combined imports and exports as a percentage of GDP.

Intra-ECCAS trade has declined as a result of a downward trend in regional integration, rather than increased trade outside Africa. It, therefore, reflects declining economic activity and production. It has intensified the demand for foreign currency to enable countries to pay for imports from outside Africa. The obsession with foreign currency has been extended to ECCAS with non CEMAC member states requiring others to pay in foreign currency. Because of the serious high shortage of foreign currency generated by its internal use, the debt arrears and consequently the debt burden of ECCAS countries has increased.

1.3 Economic Projects in ECCAS

Industry and Communications are the two main domains of cooperation among ECCAS states.

In 1975, the meeting of Heads of State and Government of UDEAC decided to share six industrial projects¹ and so to have common factories that would produce for the grouping. But the project failed because, every country wanted to have its own factory.

Following the independence of UDEAC countries, it became clear that the majority of communication channels went from inland towns to the coast, facilitating the export of primary products from Africa to countries of the west. Communications between one country and another within the region were neglected. A lot of effort is needed to spearhead the increase of intraregional trade among ECCAS/CEMAC countries as well as to address the issue of the low level of integration in Central Africa.

Sustained human development and external debt management has eluded the ECCAS subregion due to serious challenges the countries are facing and has constrained deep integration. Some of the challenges (armed conflicts, refugees, displaced persons and the nation state in the making) are conjectural and may be transitory. But the failure of the community to promote sustained human development is also reflected in its inability to take advantage of the numerous opportunities to, among other things:

- Integrate the subregion's markets for goods, services and capital with other sectors of the economy;
- Promote closer cooperation in all other sectors both economic and social
- Coordinate the monetary, fiscal and exchange rate policies of member states; and
- Promote monetary intervention.

ECCAS' inability to take advantage of its opportunities generates a number of political and economic factors that are not favourable to regional integration. Among these are:

- **LACK OF GENUINE COMMITMENT TO REGIONAL INTEGRATION** ECCAS has not reinforced the horizontal integration of the region and reduced its vertical integration to the north. The region needs a decentralised system of regional integration with a strong centre that is able to establish binding rules and procedures and to implement major decisions and policies efficiently and effectively.

- **NATIONAL EGOISM** Affects many countries. For instance, every state wants to have its own project as noted above. Other difficulties come from the uneven distribution of benefits and costs because of difference in the size and capabilities of member states.
- **INABILITY TO PUT REGIONAL GOALS BEFORE NATIONAL ONES** There is tension in ECCAS between the imperative to develop a rule based, supranational framework for deep integration and the desire for members to cling to narrow national interests in the protection of their sovereignty. Member states need to give up part of their sovereignty and agree to regional obligations that will be written into law.
- **SECURITY AND PEACE CONCERNS** Most ECCAS member states are not economically viable due to problems associated with civil strife and military conflict. Chad had twenty years of civil war until the mid 1990s; Angola was battled with UNITA rebels for a long time, until the death of Jonas Savimbi in early 2002; the DRC, which has almost 53 percent of the region's population, had its economic and social structure plundered and destroyed by the corrupt Mobutu regime and later underwent a civil war. In situations of war and conflict it is difficult to achieve economic convergence or for countries to concentrate on development, as most resources, even borrowed ones, are diverted to purchase of arms. Statistics indicate that DRC's total external debt has increased from US\$ 4 395 million in 1980 to US\$ 12 862 million in 2000.
- **ECONOMIC FACTORS** Are numerous and include a dearth of resources for project funding, narrow markets in most of the states, and communication systems that are inadequate anyway and oriented towards communication outside the region.
- **INFRASTRUCTURAL CAUSES** Particularly the excessive transport costs within the region which affect the price of commodities being transported internally and mitigate against intergration in products and markets. This is an area that calls for massive investment but regional resources are not sufficient so it could well become the source of further indebtedness.
- **THE EXTERNAL DEBT PROBLEM** The total external debt of ECCAS has trebled in fifteen years (1980 to 1995) rising from US\$ 11 344 million to US\$ 37 598 million at a rate of 231 percent as shown in Table 6. A high level of external debt hampers the integration process because the obligation to repay it leaves many countries unable to take part in the financing of common regional projects.
- **LACK OF COMPLEMENTARITY AMONG CEMAC/ECCAS ECONOMIES** The economies of a zone tend to be more complementary when the sectors or branches in each of the countries demand products (inputs) emanating from other countries of the region to ensure their functioning and vice versa. When this happens, trade relations are kept 'in the family', favouring integration of the economies of the zone. This higher level of complementarity is also a factor in external debt reduction, especially when the zone has a common currency, as is the case among the CEMAC countries. Table 6 illustrates this low complementarity in Central Africa.

Table 5: external debt of ECCAS/CEMAC (US\$ millions)

| | 1980 | 1986 | 1988 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cameroon | 2 588 | 4 157 | 4 778 | 6 679 | 6 898 | 7 349 | 7 4528 | 8 2549 | 9 350 |
| CAR | 195 | 462 | 669 | 699 | 794 | 814 | 873 | 884 | 944 |
| Congo | 1 526 | 3 519 | 4 090 | 4 953 | 4 832 | 4 770 | 5 081 | 5 422 | 6 032 |
| Guinea | 76 | 159 | 211 | 241 | 254 | 255 | 264 | 288 | 293 |
| Gabon | 1 514 | 1 944 | 2 845 | 3 984 | 4 223 | 3 851 | 3 861 | 3 986 | 4 492 |
| Chad | 285 | 264 | 392 | 530 | 634 | 728 | 825 | 825 | 908 |
| Total CEMAC | 6 184 | 10 505 | 12 985 | 17 086 | 17 635 | 17 767 | 18 302 | 19 659 | 2 019 |
| Burundi | 166 | 570 | 801 | 907 | 964 | 1022 | 1 061 | 1 123 | 1 157 |
| Sao Tomé | 24 | 79 | 109 | 153 | 198 | 217 | 239 | 254 | 277 |
| Rwanda | 190 | 452 | 655 | 711 | 808 | 849 | 890 | 931 | 1 008 |
| DRC | 4 770 | 7 191 | 8 562 | 10 270 | 10 826 | 10 924 | 11 270 | 12 322 | 13 137 |
| Total non CEMAC | 5 150 | 8 292 | 10 127 | 12 040 | 12 796 | 13 012 | 13 460 | 14 630 | 15 579 |
| Total ECCAS | 11 344 | 18 797 | 23 113 | 29 127 | 30 779 | 30 779 | 31 762 | 34 289 | 37 598 |

Source: Isaac Tamba (1998), "Les Enjeux de l'Intégration en Afrique Centrale"

Table 6 shows that, on average, other partner countries in the zone produce less than 50 percent of the imports of these countries. Cameroon trades more than 50 percent inter regionally with West Africa, even though it is part of Central Africa. Chad is even more dependent upon her West African neighbours, Nigeria and, to a lesser extent, Niger. Whereas regional import substitution strategies were the order of the day at independence, what has happened is that each state has engaged in undertaking its own industrial strategy without taking into account the subregional possibilities of synergy. Thus, nearly every country in the region produces textiles, palm oil, rubber, cement and/or sugar.

Table 6: Products produced and traded within the region (percentage)

| Exports To Exports From | Cameroon | CAR | Congo | Gabon | Chad |
|----------------------------|----------|-----|-------|-------|------|
| Cameroon | 100 | 36 | 37 | 37 | 20 |
| CAR | 77 | 100 | 44 | 39 | 28 |
| Congo | 81 | 45 | 100 | 47 | 27 |
| Gabon | 73 | 36 | 42 | 100 | 31 |
| Chad | 85 | 54 | 54 | 65 | 100 |

Source: Biao and Numba (1998)



Subregional Integration and Debt Reduction

2.1 The Contribution of Regional Integration and Internal Solutions

The main challenges of the CEMAC zone are to increase capacity and to improve the economic performance of the zone. This would help the zone to participate in the world economy as a credible partner. One of the means to meet this challenge is regional integration, the importance of which was recognised at the independence of various African countries (Nkrumah, 1964; Kodjo, 1990).

The narrowness of individual national markets increases the disparity among countries within a region, suggesting that they must unite their efforts if they want to develop their industries by benefiting from economies of scale, external debt reduction, attracting foreign investors by organising a large market with potential consumers, and creating employment for the increasing population (Hess, 1994; Vaitos, 1978; Longhammer and Hiemenz, 1991 pp 2-5; Coussy and Hugon, 1991; Radelet, 1996 pp 9-16).

Thus economic integration reinforces and favours the economic development of member countries by increasing national income and reducing external debt so that every economic agent is able to maximise the goods and services necessary for their own needs and for the realisation of social welfare.

An analysis of regional integration suggests four major ways in which it could have a favourable effect on the factors of indebtedness in Central Africa. These are discussed below.

2.1.1 Production

Market integration adds impetus to production and permits economies of scale to be realised and, therefore, production costs to be reduced. The enlargement of the market encourages old and new enterprises to produce, not only for the internal market but also for the whole subregion. The emphasis is on producing first to satisfy the needs of the population of the subregion and, subsequently, those regionally and internationally.

Regional integration leads to an adequate framework for the development of enterprises thanks to competition. The enterprises of the zone will compete with each other and the zone, being a large market, will develop a current of exchanges between the various countries. Some situations of monopoly will disappear. Naturally, some specialisation will arise, as each country concentrates on what it produces very well. With the common currency in CEMAC, regional integration makes payment mechanisms and commercial exchanges easy.

The increase in production through integration can be explained according the following scheme: if country A increases its imports from country B, country B in turn, will benefit from an increase in exports and may increase her imports from A or C. A continuous mechanism is established. At the beginning, each country will import, by preference, what it likes most and what is least competitive with domestic products. But for the system to amplify, it will need to involve industry, encourage exchanges, provoke specialisation and favour the creation of production on a large scale. This large-scale production will lessen the region's debt crisis.

The increase in production following the development of exchanges positively affects the terms of trade of member countries by reducing their vulnerability to international shocks. The demand in each country of the zone will be more or less stable, contributing thus to the amelioration of the terms of trade of each of them. This improvement in the terms of trade affects the debt crisis, as the deterioration of the terms of trade is one of the factors that contributed to its aggravation. Degradation in the terms of trade has negatively affected current transactions which, in turn, affects the balance of payments by creating deficits. Improvement in the terms of trade would, by nature, reduce deficits and render the countries of the zone less dependent on foreign capital. Progressively, external debt could be controlled and reduced. In this regard, the resumption of growth in some countries of CEMAC after the 1990s has helped in reducing their debt.

2.1.2 Savings

Regional integration affects the savings of ECCAS member countries. Cooperation in banking, insurance and social insurance can reinforce financial mobilisation. More importantly, the process warrants the harmonisation of interest rates that increases the savings rate. Given the mobility of capital from one country to another, the savings rate can even be increased in a poor country.

2.1.3 Investment

Regional integration enhances investment. The elaboration of a harmonised and modernised legal-economic framework helps to foster confidence and leads to optimal allocation of resources. Within this framework, investment risks are reduced and opportunities created for large scale injection of capital into the region. Enterprises feel freer to involve themselves in international transactions than would have been the case otherwise.

2.1.4 Reinforcement of negotiating power

There have always been disparities between the countries of the zone. Apart from the common currency that unites them, they have never looked for a collective solution to their problems especially the external debt burden. Meanwhile, the problem of debt is similar in all countries. United these countries would constitute a very strong force. It is against this backdrop that integration can play a crucial role in ECCAS negotiating power with the north and in international fora. The problem of debt would be dealt with by cartels. Countries of the region would be able, as a bloc, to negotiate with bilateral donors to:

- Reduce interest rates to make debt servicing more sustainable;
- Reschedule repayments to relieve the pressure on public finances;
- Improve the terms of loans; and
- Obtain, from the Paris Club, concessions to reconcile the financial requirements of SAPs with their external constraints, noting that SAPs are a manifestation of the debt crisis and effectively comprise penalties that increase the debt burden.



Regional Currency, Monetary Integration and Debt

3.1.1 The Effects of Foreign Currency Intraregional Trade on the Debt Crisis

Among the CEMAC members, the use of a common currency, the FCFA, simplifies financial dealings, for the currency used by one country ought to be accepted by another country of the group. However, the case of those countries that do not belong to the currency zone (ECCAS members who are not members of CEMAC) is more difficult as none of their currencies is convertible, even with the FCFA.

The problem of financing transactions has partially been solved by the creation of a Clearing House for Central Africa (CCAC) but this has resulted in the DRC accumulating a debit balance in its bilateral relations with CEMAC through their central banks. The clearinghouse has been unable to clear this debit due to the insolvency of the central bank of the DRC. The activities of the clearinghouse were suspended in 1997 due to incompetence and the central banks of Rwanda and Burundi also withdrew. The DRC's debt balance with the central bank of CEMAC countries (BEAC) increases the debt rate of the region.

The inconvertibility of national currencies of the non CEMAC countries and the impossibility of the clearing house paying back creditors has resulted in informal trade using a parallel rate between the currencies of the region and foreign currencies, causing depreciation of local currencies. This depreciation contributes to increases in the price of importation vis à vis national currency. The situation has led to less state revenue in commercial trade between CEMAC and non-CEMAC members of the ECCAS, affecting important quantities of goods. For example, it is thought that between 30 and 60 percent of coffee, 90 percent of ivory and 68 percent of diamonds exported from the DRC are traded informally (Galley, 1992), hence escaping customs duties and taxes. There is a loss to the state budget which, at the scale indicated, could force the countries of the zone to borrow from outside, increasing their external debt.

3.2 Initiating a Common Currency within ECCAS Countries

This is a need for ECCAS to have a single common currency to ensure success in economic integration and debt reduction. Monetary integration will remain a dream in the region until ECCAS has a currency that all members identify with.

The ECCAS experience is similar to that of West Africa's CFA and non CFA countries. Eight countries belong to the ECOWAS 'zone Franc' and use the common FCFA, which has been linked to the Euro since January 1999. But six other states also belonging to ECOWAS want to have their own common currency that is scheduled for January 2003. Those countries are Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. After this, the eight 'zone Franc' countries and this second group of six countries would aim for a common currency, scheduled for January 2004.

There are a number of factors that favour the adoption of a common currency in ECCAS and would guarantee debt reduction in the region. For instance:

- It would facilitate exchange and trade among ECCAS countries by removing exchange rate and transaction costs which, otherwise, are a source of inflation in the zone;

- The use of common local currency for trade among ECCAS countries will be a factor in the reduction of external debt;
- A common currency would make foreign investment more attractive in the region, particularly when it became convertible; and
- The examples of other experiences in Africa and Europe are positive

Nevertheless, the factors hampering the introduction of a common currency are many. Some of them are:

- The national egoism of states which might not be ready to abandon their national currency in favour of a regional one;
- The war and troubles between some countries of ECCAS; and
- The differences in the structures of the economies of Central Africa.

These differences could cause the exchange of the future common currency to be unstable (external accounts, debt ratio, GDP deficit, inflation etc). Also a minimum balancing of national structures has to be done before the arrival of a new common currency to create the right conditions. Some of the conditions appropriate to the introduction of a common currency are:

- The existence of peace;
- Commitment by individual states to the process; and
- Economic conditions, such as balanced economic structures (GDP deficit, external account, rate of debt, or inflation etc.) across the zone, a more diversified regional economy, disposal of a minimum quantity of international currencies by the central bank of the zone to enable it to protect the future common currency in the exchange market and a decision on whether the future currency will be linked to another international currency in the short run or be independent and flexible.



Debt, Trade And Monetary and Fiscal Harmonisation

4.1 The Nature of the ECCAS Zone

Beyond its favourable effects on production, savings, investment, and self-financing and negotiating capacities, regional integration could also help also to dynamise internal development. This strategy could lead to substantial reduction of internal and external debt in the ECCAS zone.

Integration is necessary for the CEMAC zone because it is characterised by profound macroeconomic disequilibrium. Within the zone exchanges are limited, representing less than 6 percent of external trade of member countries, and the economic structures are more competitive than complementary. Uncompetitive markets, which are also heavily protected, provoke situational rent, subventions, exonerations and trade barriers representing an increasing cost to the population without any real growth benefits.

4.2 The Impact of Regional Integration on Savings

Financial integration is, without a doubt, the most advanced form of integration in the CEMAC zone. The major aspects of this have been:

- The creation of the Commission Bancaire de l'Afrique Centrale (COBAC) to control the management of banks. COBAC oversaw the rehabilitation of banks in each country through the mobilisation of credit portfolios, rearrangement of the exportation account and recapitalisation, and the harmonisation of bank deregulation. This has rekindled confidence among savers and led to harmonisation of savings. In the process, external debt problems have been minimised in CEMAC.
- Mobilisation of insurance companies and the creation of CIMAR, which has the advantage of helping in the collection of savings and financing of the economies. Insurance Companies are important because investors have difficulty in obtaining short-term loans from banks. Thus, the adoption of appropriate legislation will ensure reinforcement of the integration process through the insurance market. The mobilisation of regional resources is a positive move towards self-sustenance and a debt free economy.
- CIPRES, created as social insurance to assist in the re-establishment of sound management of social organisation to better meet the needs of the population and enhance their contributive capacity.

The rehabilitation of banks, insurance and social insurance brought about through the integration framework has the potential to contribute to financial mobilisation through its positive impact on savings. Thus, its role in economic financing is primary. In the CEMAC zone, insurance companies and social insurance are important sources of capital to finance infrastructure and other development operations. This has, to a large extent, limited the use of external loans that are a source of external debt. If well managed, they can provide funds to enterprises and the state through banks. This could lessen the savings-investment gap and, consequently, improve the balance of payments situation. An increase in savings will reduce the need for borrowing externally by the state as well as private or public enterprise.

Regional integration has established the link between the monetary system and the economic system. With the creation of CEMAC, the Banque des Etats de l'Afrique Centrale (BEAC) shifted from only handling the monetary policy of the zone to also overseeing the economic policy of member countries. At the level of monetary policy, the effect of harmonisation was to install a monetary zone, within which identical nominal interest rates were established.

In fact, monetary policy had not been favourable to savers since the deposit rate was far lower than the interest rate. The creation of the union was intended to avoid speculative movements by raising the deposit rate. Savers were encouraged by this to save more. Through facilitation of the free transfer of capital from one country to another and suppression of other barriers, integration led to the appearance of countries with surplus financing capacity, in particular, the petroleum countries, miners and exporters of culture. At this point, potential complementarity became evident, although with some countries still suffering from inadequate financing capacity. Indeed, this mobilisation of capital within the zone filled some capital gaps that otherwise could have been met through external borrowing. For example, a capital deficit in Cameroon could be compensated for by a capital surplus in Gabon. It will be reinforced by the recent creation of a regional stock exchange, based in Libreville. Its contribution to the increase in savings in the zone will be enormous. Once countries within the zone have more resources, their BOP will improve which will help to both finance productive investments through their own means and support their debt service (Fambon, 1992). Countries with resource deficits will turn to the regional stock exchange and thus avoid having to borrow from international financial markets at high interest rates. Central Africa will not be forced to borrow in order to meet the balance of payment gap if its savings scheme is successful.

4.3 The Impact of Regional Integration on Investment

The conjugated effects of the custom's fiscal reform elaborated within the UDEAC framework and the harmonisation of business law has had a positive impact on investment in the countries concerned. The increased fiscal earnings will reduce the budget deficits that were the origin of the debt problems. Similarly, the custom's fiscal reform will contribute to the development of investment in an improved fiscal environment. It will prioritise the earnings of enterprises as well as generating an increase in total earnings.

At the level of industries, communal industries will be put in place. Their establishment will be a function of the particular endowments of the country concerned. For enterprises needing large scale capital, this will come from all the member countries of the zone. This can be a solution to the debt crisis in that a fall in the capital needs of a country will reduce its urge to borrow externally to finance its economic development. A good example is that of the textile industry. Over the years, the Central Africa plant has experienced a serious crisis of over production. All restructuring measures have failed. But a regional strategy could define the production structure and a textile market of sufficient size to resist competition from Nigeria and the DRC. The 1992 restructuring programme centralised the activities within a Cameroonian enterprise, CICAM, and saw the closure of STT in Chad.

Through this high technology industry, those countries involved can also build intermediary technological industries, as in many Southeast Asian countries. This will allow them to use local manual labour, rather than hiring skilled expertise that leads to repatriation of salaries. These industries can also produce at competitive costs and win markets in other developing countries.

In terms of agriculture, integration favours rationalisation that is often difficult to realise at the national level, establishing an articulation between agriculture and industry. Economic history has shown the role of the agricultural sector in the evolution of industrialised countries, which is that of production of goods and services that will lay the industrial base. The restructuring of agriculture will increase production, overcome food shortages and save currency. Increased production, the availability of adequate food and the redirection of capital from food imports to productive investment can all have a marked impact on external debt.



The Impact of External Arrangements

5.1 Export Oriented Production

The economic and financial evolution of the Central African countries since 1980 has been shaped by both internal and external factors. The effects of exogenous factors were amplified by the narrow structure of these economies whose rigidity did not enable a fast and appropriate adaptation to external shocks.

CEMAC economies are vulnerable because of their structure, characterised by the existence of a predominant sector that is itself highly dependent on external markets. In some of these countries, the share of the Gross Domestic Product (GDP) devoted to exports is more than 50 percent.

It is possible to distinguish two phases since 1980:

- 1 A period of good export prices (cocoa, coffee, cotton, and oil), the firmness of the exchange rates of these products in the invoicing currencies and low levels of external debt; and
- 2 From around 1984, the phase of the depreciation of the export rates of these raw materials and those of the dollar since 1985, accompanied by a ballooning external debt.

Benefiting from the substantial increase of public resources led by the increase of oil prices, from 1980 to 1984, ECCAS states pursued expansionist budgetary policies characterised by large consumption and investment expenditures. Ambitious development programmes were launched in some of these countries with the aim of 'catching up' in the domains of economic and social infrastructure. More than one third of the budgetary expenditures financed either by national or external resources were devoted to this type of investment. Given the low interest rates, external borrowing was rife.

In the early 80s, the prices of raw materials and in particular of oil, justified a generalised optimism (as shown in Table 7). However, when prices of these raw materials especially oil are low on the world market, related sporadic shocks can easily destabilise subregional economies.

In some cases, countries of the region were also pushed by donors to borrow. Taking advantage of this new fever of investment, international banking consortiums, suppliers and other credit organisations were quick to propose to governments the financing of huge projects for which either the economic needs were not evident or management capacity was still non existent.

Table 7: Evolution of Cocoa, Coffee, Cotton, and Oil Prices Between 1979 and 1987

| | cocoa | coffee | cotton | oil (\$/barrel) |
|------|--------|--------|--------|-----------------|
| 1979 | 149.36 | 169.50 | 62.10 | 21.34 |
| 1980 | 118.09 | 150.71 | 81.30 | 35.51 |
| 1981 | 94.19 | 115.82 | 72.02 | 39.36 |
| 1982 | 78.01 | 125.62 | 60.03 | 38.48 |
| 1983 | 96.10 | 127.94 | 78.42 | 34.10 |
| 1984 | 108.67 | 141.24 | 68.15 | 32.84 |
| 1985 | 102.27 | 133.47 | 58.68 | 31.60 |
| 1986 | 93.89 | 170.28 | 52.72 | 18.10 |
| 1987 | 90.61 | 107.32 | 63.47 | - |

Source: SFI, IMF

From 1985, the most critical phase of the crisis started, marked by negative transfers that amounted to US\$ 112 million for all the CEMAC countries. At the same time, the abundance of supply on international markets, and especially those of the OECD, where the demand stagnated and even reduced, led to the fall of prices of the traditional exports of the subregion. At the end of 1985 the price of oil dropped drastically, reaching less than US\$ 20 a barrel in 1986.

These external developments led to the rapid fall of revenues as ECCAS member states continued to rely on external debts with the aim of completing some priority projects already underway. But, external finances, in the form of gifts, direct investment and loans started to be rare while the deadline for the payment of the debts contracted under generally concessionary conditions approached. Economic growth was therefore compromised.

To the above mentioned factors could be added capital flight abroad and the poor performance of public and quasi public enterprises which worsened the liquidity crisis of countries in the region. Many studies² have shown a positive correlation between indebtedness and capital flight. Just before the devaluation of the FCFA of January 1994 in the 'zone franc', CEMAC countries faced major problems of capital flight, as shown in Table 10.3

Table 8: CAPITAL flight in the franc zone (US\$ million)

| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 5 093 | 4 788 | 5 699 | 5 910 | 5 436 | 4 923 | 5 420 | 4 978 |

Source: Report of Banque de France, 1999

The trend rises before and during devaluation and falls afterwards. Being aware of this risk, ECCAS countries have to take measures in order to fight against capital flight.

Faced with persistent indebtedness, the conservative measures adopted in every country of the BEAC zone were of two kinds:

- 1 Rescheduling of loans whose servicing was more than the reimbursement possibility of these countries; and
- 2 Putting in place adjustment programmes supported by multilateral financial institutions in each country with the aim of stopping the external capital haemorrhage.

Generally, even if these measures succeeded in improving the debt situation of many countries with intermediary revenue, it should be acknowledged that all the countries of the BEAC zone had difficulties in honouring their external debts repayments because of the conjunction of the factors mentioned above.

The SAPs strategy revealed serious weaknesses, principally the fact that debtor countries cannot carry out investment without resorting to new borrowing. Other debt reduction strategies since 1982 have been:

- The Baker Plan (1985), which achieved very little because banks did not want to engage themselves in heavily indebted countries;

- The Brady Plan (1989) which introduced new negative effects by increasing the payment arrears of debtor countries with banks; and
- The Toronto Terms (1988), Dakar Plan (1988), Trinidad Terms (1990) and the Libreville funds (1992), which also had insignificant results.

Consequently, debt and its service payments have continued to grow up to today, destabilising the whole economic system of indebted countries.

Numerous debt-rescheduling exercises have brought little real relief. The problem is how to bring under control the payment charges and how to increase the debt service capacity. The admission of Cameroon (2002), Chad (1999), Congo (2000) and CAR (2001) into the Heavily Indebted Poor Country (HIPC) initiative constitutes a major relief to these countries. However, this debt relief is still far from being an efficient or lasting solution to the debt problem because it deals in the consequences and not the causes of indebtedness. It is proposed that an efficient and lasting solution would be that which touches on the factors that were responsible for the emergence of the debt problems.



The Creation of Regional Debt Reduction Mechanisms

In line with the convergence criteria (agreed levels of budget deficit, inflation etc), CEMAC aims to put in place a common indebtedness policy based on debt indicators. Better performing countries of the zone will serve as a reference. It will be a policy that permits debt control through debt terms that are easy, as they were in the 1970s. Countries of the zone should only borrow to foster expansionist policies, and within the limits of their capacity to repay. Thus, signals will be issued each time the indicators go above a certain threshold. The application of this criterion should limit the type of external borrowing that aggravated the debt burden and will ensure the payback of projects financed with borrowed funds. In fact, one of the causes of the debt crisis was poor management of the borrowed funds and generally low returns on the projects funded.

This convergence criterion will favour better management of loans and high return projects. The countries will only borrow to invest and capital flight will be reduced, thus eliminating the budget deficits and speculation that lead to inflation in the zone. Furthermore, efficient utilisation of the borrowed capital will assure confidence and increase the credibility of countries of the zone.

In the case of CEMAC a criterion of convergence has to be established based on many economic indicators, among which indebtedness appears at number three in Table 7. Every country's external debt arrears must be equal to zero or negative.

Table 9: The Convergence Criterion in CEMAC and the Indicators of Multi-Lateral Supervision

| | INDICATORS OF MULTILATERAL SUPERVISION | LEVEL |
|---|---|-----------------------|
| 1 | Rate of external coverage (percentage) | 20% minimum |
| 2 | Primary budgetary balance (FCFA billion) | Negative or zero |
| 3 | Variation in internal arrears (FCFA billion) | Negative or zero |
| | Variation in external arrears (FCFA billion) | Negative or zero |
| 4 | Variation in percentage of the total salaries of the public service (A) | Less than equal to B |
| | Variation in percentage of budgetary revenue (B) | Greater or equal to A |



The ECCAS Experience With Integration And The Debt Problem: Costs And Benefits

7.1 Improving Debt Reduction and Regional Integration in CEMAC Countries

At the beginning of the 80s, developing countries were plunged into a debt crisis. In relation to their own resources, debt servicing attained disproportionate levels and the consequence was a grave financial crisis characterised by freezing of credits at the international level. There are indications that integration based on better coordination of economic policy could seriously reduce the debt crisis when the period after 1995 is compared to the period before, and by taking into consideration the recent experience of CEMAC.

7.1.1 The period before 1995

In almost all African countries the origins of non-sustainable debt are both internal and external but a particular problem is the absence of a consistent and acceptable policy on debt in these countries. Coordination of such a policy can best be managed at the level of economic integration and CEMAC followed this route. In the six countries of CEMAC the pertinence of the problem of debt was revealed at the beginning of the 80s, at a moment when the regional integration process was embryonic. Even if the stock of their debt was less than 2 percent of the total debt of the developing countries and less than 8 percent of the African debt, the capacity to reimburse of the CEMAC countries dropped drastically in the economic environment of the 1980s and at the beginning of the 1990s. The estimated amount of the external debt of all the CEMAC countries was FCFA 3 991 billion in 1992. Cameroon, Congo and Gabon accounted for more than 80 percent of this while those countries whose repayment obligations were highest by comparison to their GDP were São Tomé and Príncipe (300 percent), Equatorial Guinea (139.9 percent) and Congo (177.3 percent). In 1994, among three quarters of the CEMAC countries, the rates of the debt service had crossed the sustainable limit and reaching more than 50 percent of exports in some countries.

7.1.2 The period after the 1995 reform's

Starting from 1995, the year of the CEMAC treaty, the fundamental rates of debt have improved. In fact, in 2001, the obligations linked to the debt service represented an average of some 19 percent of the export income in five countries of the CEMAC, with only CAR and São Tomé and Príncipe retaining a non-viable rate. Linked to the GDP in almost all the countries of CEMAC, the amount of external debt has considerably decreased compared to the level before 1994. The same observation can be made when the debt is linked to budget income. But, for CEMAC, this might well be a last chance opportunity for debt reduction and so it has to be managed well.

7.2 Towards Better Integration and Management of New Opportunities

Today, the sustainability of the external debt of the CEMAC countries depends on the acceleration of the benefits of the initiative in favour of the heavily indebted poor countries (HIPC). The aim of the initiative is to correlate the debt service (including multilateral) to the reimbursement capacities of the countries so that their current account of transactions becomes viable.

The HIPC initiative includes some exclusive and restrictive measures. The rate of the Net Present Value (NPV) of the debt to exportation and the debt servicing to exportation are taken into

consideration. For the HIPC I, instituted in 1996, the degree of debt repayment considered sustainable was less than 200 percent for the rate NPV of the debt to exportation, and between 20 and 25 percent for the debt servicing to exportation.

In 1999, those conditions were made more flexible in the HIPC II, which offers more acceptable and more rapid conditions. The rate NPV of the debt to exports is supposed to be lower than 150 percent while the rate of the sustainable debt service remains the same. Some indicators of vulnerability appropriate to each country, such as the variability of the export product concentration, the weight of the debt service in the budget, the ratio of internal debt to GDP, the balance of resources, and the weight of the debt of the private sector, are taken into consideration. A further condition in the HIPC II is the preparation and execution of a strategic framework for the fight against poverty in each country. Six countries in CEMAC have reached the point of decision to benefit from debt reduction through the initiative. These are Cameroon, Congo, Equatorial Guinea, Central African Republic, Sao Tomé and Príncipe, and Chad.

The countries of CEMAC need to carefully manage their economies during the HIPC period, reinforcing their economic integration to encourage growth. This growth will enable them to reach the twin objective of releasing resources to repay their debt and generating more internal resources to avoid further external debt.

8

Recommendations

There are a number of issues that need to be addressed if ECCAS is to promote deep integration and debt reduction in the subregion. These include the following:

- In the financial sector, it is urgent for ECCAS to promote initiatives aimed at currency convertibility at fixed exchange rates and improved payment mechanisms, as well as to establish an institution for mobilising ECCAS resources. Effective mechanisms for sharing the benefits of integration and encourage intraregional trade are also necessary. ECCAS should export and import more between member states than between the region and the north.
- ECCAS needs to promote sustainable development and debt reduction by taking advantage of the numerous opportunities to integrate the subregion's markets for goods, services and capital to other sectors of the economy, to promote closer cooperation in all other sectors both economic and social, to coordinate monetary, fiscal and exchange rate policies of member states and to promote monetary intervention, among other things.
- In their quest for resources, the countries of the region should explore the possibility of seeking external grants, rather than obtaining loans that will increase their indebtedness. The recent decision of the Finance Ministers of the G7 Summit (in Toronto, Canada, June 2002) offers opportunities for developing countries, for the Summit proposed that at least 20 percent of development aid must be in the form of grants rather than loans and, in return, a policy of 'good governance' should be applied in the countries of the south.
- The region needs to cooperate on issues of peace, security and conflict resolution for deeper integration and debt reduction has been constrained by armed conflicts, refugees, displaced persons and ethnic conflicts in most of its member states. The establishment of institutions of peace and security in the region should be sought, following the example of the ECOWAS' Monitoring Group (ECOMOG) in West Africa. Although a number of factors have contributed to the subregion's inability to meet the convergence criteria for monetary integration, political-military conflicts tended to compound the problems.
- ECCAS needs to form a debt cartel that will negotiate with creditors for better external loan procurement, terms, management and repayments.
- A common development bank is needed to finance regional and national projects, to assist in the integration process and to reduce economic disparities between the member countries. The problem of each ECCAS member state clamouring to get a regional project could be solved by introduction of such a development bank.

Conclusion

The potential positive contribution of regional integration towards the amelioration of the debt crisis in Central Africa is evident. Integration can increase and rationalise production, encourage domestic savings and act as a magnet for investment by both internal and external players.

There is some degree of formal integration in Central Africa through the CEMAC, encompassing six states, and the broader ECCAS which has five additional members. This integration at present is characterised as being at the economic level but not having attained a political dimension.

A viable regional mechanism specifically aimed at debt reduction would need to be based on the principle of 'convergence' but this is difficult to achieve in a zone with such huge divergences between the members, particularly in terms of their economies. The same divergences have hampered the development of integrated modes of production to exploit comparative advantage and achieve economies of scale. Therefore production is not being used effectively as a means to overcome the debt crisis.

Nevertheless, A review of the indices for the region before the coming into force of the CEMAC Treaty in 1995 and those after that date does show an improvement in the debt situation of member countries which appears to be linked to the integration process.

The Central African region has achieved notable levels of integration through the creation of a series of institutions that encourage, safeguard and create a stable environment for both savings and investment. The effect of this is to strengthen individual economies and, by extension, the regional bloc. The use of a common currency, a specific measure that CEMAC has adopted, and ECCAS will within the next few years, has positive benefits in overcoming problems of debt. The use of a common currency encourages intraregional trade, thus strengthening all the national economies of the region. This both increases the capacity of individual countries to pay their existing debts and lessens their need to contract further external debt in future.

Ironically, it is noted that debt itself is a deterrant to regional integration as it leaves many countries in a position where they are unable to meet their financial obligations to the regional body. The potential of regional integration as a means of strengthening the bargaining power of members as part of a significant bloc is yet to be fully exploited. This combined power should be used in future in seeking new and alternative forms of funding and, specifically, in optimising the benefits offered by the HIPC initiative. It is recommended that the countries of the region make the most of the opportunities that HIPC has to offer while bearing in mind that it is not a long term solution to problems that can better be solved by further strengthening regional integration.

Notes And References

- ¹ The decision was taken by the UDEAC, Bill number 13/75 UDEAC 23 in 1975.
- ² Sample study made by Banque Nationale de Paris.
- ³ According to some sources, the amount of capital flight in the period preceding the January 1994 devaluation reached about FCFA 450 billion.

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