Regional Integration and Policy Challenges in Africa

Edited by

Adam B. Elhiraika
Director, Macroeconomic Policy Division, United Nations Economic Commission for Africa

Allan C. K. Mukungu
Senior Economic Affairs Officer, Special Envoy, United Nations Economic Commission for Africa

and

Wanjiku Nyoike
Development Planning Consultant, Capacity Development Division, United Nations Economic Commission for Africa
Overview

Adam B. Elhiraika, Allan C. K. Mukungu, and Wanjiku Nyoike

1 Introduction 1
2 Convergence, monetary policy, and economic growth 1
3 Institutional integration and policy coordination 6
4 Financial integration and regulation 9
5 Fiscal policy and regional integration 14

Part I Convergence, Monetary Policy, and Economic Growth

1 Can Inflation in WAMZ Converge without Monetary Policy Coordination? 23
Emmanuel Dele Balogun
1 Introduction 23
2 Related literature 24
3 The theoretical and analytical framework 27
4 Empirical models 28
5 Empirical results 30
6 WAMZ area and country-specific inflation and monetary conditions 33
7 Effect of ex ante uncoordinated monetary conditions on the WAMZ's inflation differential 34
vi Contents

8 Country-specific monetary condition and
the implications for the inflation differential 38
9 Summary and implications for unionization efforts 40

2 Economic Integration in WAEMU: Nominal
Convergence and Growth Dynamics 43
William Gbohoui
1 Introduction 43
2 Methodology and data 45
3 Empirical results 47
4 Concluding remarks 63
Annexes 65

3 Monetary Policy and Economic Growth in CEMAC:
A Panel Data Approach 69
Simon Yannick Fouda Ekobena
1 Introduction 69
2 Literature review 70
3 BEAC's monetary policy 72
4 Methodology 76
5 Results, analysis, and lessons 79
6 Conclusion 81
Annexes 82

Part II Institutional Integration and
Policy Coordination

4 The Challenges of Regional Integration in the
East Africa Community 89
Patricia Mukiri Mwithiga
1 Introduction 89
2 Background to the research problem 90
3 Objectives of the study 92
4 Methodology of the study 93
5 Origins of the East Africa Community 98
6 Conclusion 104

5 Regional Integration in Africa through the
Harmonization of Laws 109
Regis Y. Simo
1 Introduction 109
2 OHADA as a "new" law and development in Africa 111
3 OHADA as an “instrument” of regional integration in Africa 117
4 A Short appraisal of OHADA's 20 years of existence 119
5 Conclusion 120

6 External Debt, Quality of Institutions, and Economic Growth in WAEMU 124
   Jérôme Ouedraogo
   1 Introduction 124
   2 Literature review 125
   3 Descriptive analysis 129
   4 Econometric modeling 132
   5 Conclusion 139
   Annexes 140

Part III Financial Integration and Regulation

7 Financial Integration and Economic Growth: Portfolio Equity Flows to Sub-Saharan Africa 145
   Eric Osei-Assibey and Seth Obeng Adu
   1 Introduction 145
   2 Trends in economic growth rate and portfolio equity flows in SSA 147
   3 Financial integration and economic growth 150
   4 Empirical framework and model specification 154
   5 Estimation results and discussions 158
   6 Synthesis of the results 163
   7 Conclusion 164

8 Financial Frictions and Exchange Rates in ECOWAS's Prospective Monetary Union 168
   Lacina Balma
   1 Introduction 168
   2 The model 171
   3 Calibration and estimation strategies 176
   4 Conclusion 183
   Annexes 184

9 Financial Deepening Dynamics and Implication for Financial Policy Coordination in WAEMU 201
   Christian Nguena and Temilade Abimbola
   1 Introduction 201
2 Financial deepening dynamics and financial policy coordination in a monetary union: a literature review 203
3 Financial deepening dynamics and implication for financial policy coordination in WAEMU: an empirical investigation 205
4 Conclusion 215
Annexes 216

10 Illicit Financial Flows, Trade Mispricing, and their impact on African Economies 220
Simon Mevel, Siope Vakataki ‘Ofa, and Stephen Karingi
1 Introduction 220
2 Key concepts and background on IFF 222
3 Quantifying IFF from Africa: method and results 225
4 Impact of IFF on African economies: method and findings 234
5 Conclusions and policy implications 243
Annexes 245

Part IV Fiscal Policy and Regional Integration

11 Harmonized Budget Programming Reforms in Africa: Senegal’s Experience with MTEF 255
Ligane Massamba Sene and El Hadji Fall
1 Introduction 255
2 The MTEF as a multi-year budgetary programming tool 257
3 The MTEF in Africa 258
4 The impact of MTEF on budgetary programming in Senegal 261
5 Conclusion 272
Annexes 273

12 Monitoring Fiscal Sustainability in Africa 278
Moses Obinyeluaku
1 Introduction 278
2 Revenue and expenditure developments in Africa 279
3 Causal link between revenues and expenditure: theory and evidence 282
4 Granger causality in a panel framework 284
5 Application to government revenue and expenditure 287
6 Econometric investigation 289
7 Budget deficits and budget institutions 292
<table>
<thead>
<tr>
<th>Contents</th>
<th>ix</th>
</tr>
</thead>
</table>

8 Conclusion 295
Annexes 297

13 Fiscal Rules in WAEMU: Limiting Public Deficits 302
  Mohamed Coulibaly
  1 Introduction 302
  2 Model and methodology 304
  3 SBBHD analysis 310
  4 Conclusion 313
  5 Recommendations 314
  Annexes 315

Conclusion 326
Adam B. Elhiraika, Allan C. K. Mukungu, and Wanjiku Nyoike

Index 329