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Francophone Africa: Caught Between Paris and the IMF

Leaders of the African franc zone monetary union (CFA) have devalued their common currency in the wake of a game of brinkmanship between France and the IMF over support for their ailing economies. Paris hastened a showdown with the Fund by announcing this past September that it intended to link further budgetary support—particularly for the dominant economies of Senegal, Cameroon, and Cote d'Ivoire—to their obtaining new IMF standby programs. The French policy implicitly challenged the Fund to abandon its insistence on a devaluation of the overvalued CFA franc or risk suspension of French support for CFA foreign debt obligations. Despite this threat, the IMF held firm in its insistence on a devaluation as a condition for any further financial support to Francophone Africa. France's capitulation now presents the IMF and World Bank with an unprecedented opportunity to shape comprehensive reform plans in the CFA countries but also increases the likelihood that the region will expect increased aid and better debt relief terms from international donors. France's tenacious opposition to a devaluation affords it the appearance of acceding to the measure as a last resort in securing new aid for its former colonies and enables it to shift the blame for any ensuing political unrest to Washington and international financial institutions.

On the French Dole

In recent years, Senegal, Cameroon, and Cote d'Ivoire have become increasingly dependent on France for direct budgetary assistance because of suspended IMF loan programs and dwindling export revenues. By mid-1992, all three countries had failed to reach key fiscal and structural adjustment targets, resulting in the suspension of IMF enhanced structural adjustment facilities (ESAFs) and standby agreements worth several hundred million dollars:

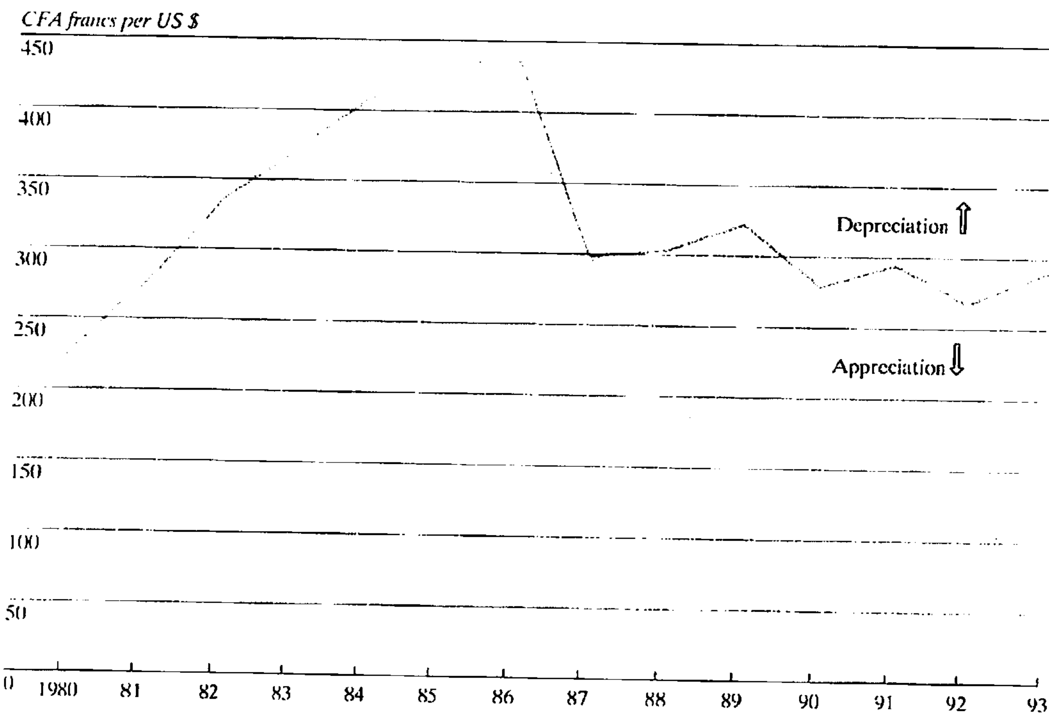
- Cameroon, after failing to meet its obligations under an $80 million standby program granted in 1988, lost rights to a $36 million standby granted at the end of 1991. Yaounde steadfastly failed to reduce its operating budget, stem parastatal hemmorrhages, and keep transparent government accounts.

- Senegal's $195 million ESAF expired in June 1992, and Dakar has since been unable to negotiate a standby loan with the Fund because of its failure to boost government revenues and control public-sector wages.

- Cote d'Ivoire forfeited the third tranche of a one-year $112 million standby when it admitted to running a $80 million deficit in FY 1991, after having earlier declared a $60 million surplus.

With the loss of this aid, Dakar, Abidjan, and Yaounde turned to Paris for assistance on a host of short-term obligations, including IMF and World Bank loans and public-sector salary arrears.

CFA Franc: Exchange Rate Trends, 1980-93



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Paris Gets Tough

As France's own economic fortunes sag and with a new government less inclined to dispense aid on the basis of longstanding personal ties between French and African leaders, Paris has become increasingly critical of the pace of economic reform in Francophone Africa and resentful of its costs. In September, it decided to hold CFA leaders accountable to the IMF for the first time as a condition of continued budget support in an attempt to force CFA countries and the Fund to come to some accommodation. Paris's decision serves notice to Africans that

France is as serious about reform as the IMF and implies that Paris is prepared to suspend payments on behalf of its Francophone wards if they do not respond. French officials also believe that their willingness to support these countries has had the unwanted effect of subsidizing the Fund's intransigence on Francophone reform,

Regardless of Paris's motives, genuine conditionality on the part of the French has increased pressure on Dakar, Abidjan, and Yaounde to move more quickly on reform. Indeed, until mid-1993 the three governments largely ignored wage ceiling targets established by the IMF and World Bank, as well as civil servant layoffs advocated by France. As a result, wage expenditures continued to dominate the fiscal picture, accounting for as much as 90 percent of the operating budget in Cote d'Ivoire, 58 percent in Senegal, and 48 percent in Cameroon.

African reluctance to move swiftly in reducing the size of government work forces is founded in part on the political risks associated with the statist tradition that government take direct responsibility for job creation and income protection. In 1990, Abidjan had to retreat from attempted wage cuts after they provoked sharp civil unrest. In ethnically riven Cameroon, embattled President Biya relies on the support of his ethnic group, which holds a preponderance of government jobs.

Despite these obstacles, Dakar, Abidjan, and Yaounde began to take steps to put their fiscal house in order late last year. By reigning in government spending, CFA leaders sought a modest improvement in external balances through the suppression of consumer demand. Judging from the resulting political unrest in each country, the cuts have been real and sorely felt:

- In October, Senegal implemented an across-the-board 15-percent salary cut for public employees and a 4-percent cut for those in the private sector.
- Cameroon cut public servant incomes twice last year, slashing salaries by as much as 20 percent in January and 50 percent in December.

Further austerity could trigger paralyzing general strikes because of rising political unrest in all three countries. Various public-sector labor groups and unions have gone on strike in Cameroon in response to the December paycuts. Senegalese unions mounted a successful one-day warning strike in September and continue to quarrel with Dakar over the austerity program launched in October.

IMF Maintains its Hard Line

A key IMF demand for new financial assistance to Francophone Africa has been a devaluation of their common currency, the CFA franc. Although Paris had hoped that the continued standoff between the two sides would force the IMF to relax its insistence on a significant devaluation, the Fund held firm. Faced with the prospect of a cutoff of French aid without a new accord with the IMF, CFA leaders finally decided to convoke a heads of state meeting in Dakar on 10 January to hammer out a devaluation strategy. After some initial bickering, the leaders agreed on the 50-percent devaluation demanded by the Fund. France consented to the measure despite the cost to its commercial interests in the region.

Despite the Africans' concession on devaluation, the IMF is also likely to continue its insistence on reductions in the public-sector wage bill as a condition for new standby programs. With the derailment of several adjustment programs in each country because of unchecked wage expenditures, both the IMF and the World Bank are convinced that fiscal discipline along with devaluation offer the only hope for a real reduction in wages necessary to restore Francophone Africa's competitiveness. To the dismay of the Africans, the Fund and the Bank also are toughening their stance on structural reform. the IMF and the World Bank have argued against a wage cut, advocating instead a program to lay off 75,000 of 120,000 government employees.

Paris Making the Best of the Situation

France's capitulation presents the IMF and World Bank institutions with an unprecedented opportunity to shape comprehensive reform plans for the CFA states. The 45-year-old fixed parity between the CFA and French francs has been the major stumblingblock for IMF stabilization programs. Unable to attack current account deficits through adjustment of the terms of trade, reform programs had increasingly become reliant on a host of internal adjustment strategies in areas such as government domestic arrears, tax administration, and subsidization of public enterprises that were too cumbersome to administer and monitor or which paid only incremental dividends. Moreover, French tolerance of African resistance to major cuts in bloated civil servant payrolls undermined public-sector reforms that were meant to reduce import demand—contributed to chronic trade deficits.

African perceptions that devaluation has been a key goal of international donors means, however, that CFA countries will probably expect increased aid and better debt relief terms from them. France will no doubt urge CFA leaders to demand such an increase in light of its loudly proclaimed move to forgive 50 percent of bilateral debt owed by lower-middle income countries. attempts to lay th

At the same time, France's tenacious opposition to devaluation will enable it to avoid damage from any negative political fallout. In recent weeks, Paris appears to have maintained its influence over the political liberalization under way in each country—in particular, the transition in Cote d'Ivoire following the death of President Houphouet Boigney. Paris's down-to-the-wire opposition to devaluation also enables it to save face with Western audiences by affording it the appearance of acceding to the measure as a last resort in securing a new IMF facility for its former colonies.