

Conceptual Note



The quest for economic and monetary sovereignty in 21st century Africa: lessons to be learnt and ways forward.

7-8-9 November 2019

The Tunis office of the Rosa Luxemburg Foundation will organize an international conference on the issue of monetary sovereignty/monetary dependency in Africa from November 7 to November 9, 2019. This conference is part of an emerging inter-disciplinary research agenda aiming to rethink the links between money, debt, and dependency, and to bring the study of African dependency into the conversation on global monetary relations, too often pursued from a rather Eurocentric perspective. Indeed, two main absences characterize the study of Africa's role in global monetary relations: Monetary economics and the study of debt and money in International Political Economy tend to disregard the African continent because of its small economic weight. Development economics, and dependency theory especially, do focus on Africa but neglect monetary analysis and focus rather on the power asymmetries of the international trade regime.

This international conference will try to apprehend monetary sovereignty as a broad concept that takes into account similar but analytically different aspects like formal monetary sovereignty - refers to a country or a monetary bloc having its own currency, that is, a non-colonial, non-foreign or territorially exclusive currency/ a currency that does not coexist with foreign currencies in its own jurisdiction); the autonomy of monetary policy (the possibility for a central bank to conduct an autonomous monetary policy); financial independence (refers to an economy not constrained in financial terms - that is to say, an economy able to mobilize the desired volume of financial resources and able to define autonomously the terms under which it has access to them). Reciprocally, formal monetary dependency, lack of autonomy of monetary policy and financial

dependency can be viewed as three different elements along the vertical and multilayered continuum between monetary dependency and monetary sovereignty. Monetary dependency in Africa is at the same time a cause and an effect of the subordinate status of the continent in the economic, political and military domains.

Patterns and diversity of monetary dependency in Africa

Monetary dependency remains a generalized feature of the African continent as a whole, despite the great diversity of situations and differences in levels of economic development. It is a legacy of European colonialism which began with the replacement of indigenous currencies with colonial currencies that would circulate within colonial monetary zones. A move designed to connect the African continent to the global monetary and financial system. In 1964, an inventory of monetary systems in Africa shows a continent fragmented according to a colonial logic. The 55 countries and territories of the time were divided between the French Empire (20 of which 14 countries using the CFA franc), the British Empire (14), the rand zone (5) and the Portuguese (4), Belgian (3) and Spanish (2) monetary blocs¹. Twenty years later, this colonial monetary landscape had been profoundly altered as the newly independent countries for most of them would issue their own currency. Only the franc zone, despite the many turbulences that have affected the world economy, has withstood the vicissitudes of time. For the eight countries of the West African Economic and Monetary Union (WAEMU) and the six countries of the Central African Economic and Monetary Community (CAEMC) that share the CFA franc, monetary decolonization has not yet taken place. Despite the Africanization of the monetary signs and the staff of the central banks, the monetary mechanisms that were set up in the colonial period still operate without major change. France, as their former colonial metropolis, continues to manage part of the foreign exchange reserves of these two blocs as well as their monetary and exchange rate policies. This lack of formal monetary sovereignty translates into a lack of an autonomous monetary policy and a situation of financial dependency. Over time, the economic and financial dependency of the country members of the WAEMU and the CAEMC towards France has broadened to assume a more global character by including actors like the IMF, the European Union, China, etc.

Most North African countries, (ie. Tunisia, Morocco, Algeria) after their independence, established their own central banks, issuing their own currencies. Despite enjoying nominal monetary sovereignty, they face ordinarily numerous facets of monetary, economic and financial dependency, mostly because of their foreign denominated debt, and intensive, extractive export

¹ Economic Commission for Africa (1964) "Report on the expert group on an African payments union", Addis Ababa, 4 February.

oriented development models, after signing GATTs and EU Association agreements in the 90's, putting these countries in a vicious circle of opening borders to foreign investors, deepening the trade imbalances, and thus facing a continuous need of foreign currencies, to service their foreign debt, and pay for imports of essential goods, energy, and export low value added industrial products and raw material. Their exchange rates are volatile and tend to depreciate continuously. Banks are mostly foreign-owned and banking credits are rather low as a share of GDP. Foreign exchange reserves depend mostly on the vagaries of the world market, a slump in the price for export commodities may halve annual receipts unexpectedly. A rise in the value of the US Dollar, by contrast, renders oil imports and other essential goods more expensive. Hence, a rise in international interest rates may increase the debt burden of some States and put them into insolvency, especially in situations where commodity prices are plummeting. A situation which renders their economies highly dependent on global economic trends, most African countries are *de facto* placed under the monetary tutelage of the IMF. Imposing austerity, regulatory change, (i.e. more independence for central banks), and enforcing market rules, and shrinking spaces for governments to conduct alternative progressive policies.

Since the onset of the financial crisis in 2007, more than 15 African governments have decided to sell US Dollar denominated government bonds to Western banks for the first time since the debt crisis in the 1980s. Contrary to what the BRICS did, they increased their dependency on Northern and Western capital markets instead of decreasing it. Thanks to the non-conditionality and the initially acceptable interest rates of these loans, this seemed like a self-determined and promising way to finance their infrastructure investments. Not being bound to the IMF, World Bank or other donors' conditions appeared like an opportunity for policy space and more autonomy. However, with rising interest rates since 2015 and the slump in some export commodity prices, numerous countries have begun to face a debt trap. For Ghana, Kenya, Angola and South Africa, debt levels have increased threefold between 2005 and 2015. For Mozambique, the situation is worse. As its debt/GDP ratio increased from 38% to 130% between 2011 and 2016, Mozambique was recently forced to default on its debt.

The situation of these countries is a general trend throughout the continent. Where the debt/GDP ratio seems moderate, the real situation is sometimes masked by accounting gimmicks. Public Private Partnerships (PPPs) are often associated with "hidden debts" which are not accounted for in standard evaluations of public debt². Another disturbing trend is the increasing level of illicit financial flows exiting the African continent. This financial bleeding results mainly

² <https://www.tni.org/en/article/opinion-ppps-lead-to-dangerous-debts-for-developing-countries>

from accounting practices of multinationals (through what is called “trade mispricing”) and various criminal activities. It is responsible for the following paradox: while Africa is increasingly more indebted towards the rest of the world, Africa is nonetheless a net exporter of capital.

In the workshop, we will try to reflect in a dynamic perspective on the patterns and diversity of monetary dependency throughout the continent and how monetary dependency interacts with other forms of dependency (Trade, debt, historical and political dependency). We will discuss the challenge faced by African countries in the current era when it comes to finance development and growth. We will investigate the global institutional constraints imposed by the EU, IMF, World Bank and donor priorities and their governments’ own internal reasons of not pursuing strategies beneficial to the broader population.

What are the paths towards financial and monetary autonomy?

Despite the recent turmoil in the Euro area, for many observers and panafricanist voices, African monetary integration is the road to financial and monetary autonomy. There exist several projects of monetary integration on the African continent. The African Union works on a single currency for the continent whereas the five regional economic communities each strive to create a regional currency. However, few observers expect these initiatives to come to fruition due to a number of reasons such as lack of political will, and in the case of the CFA zone. France having no interest in a monetary integration where its role would be severely diminished.

The conference will tackle the discussion about African monetary integration from a more global perspective. The demand for monetary integration is in some way a response to the volatility of a global economy in which the positive role of dependency on the US dollar as the reserve currency is increasingly in doubt. Throughout the world some forms of monetary integration are emerging between countries aspiring to protect themselves against the hegemony of the dollar such as initiatives like the BRICS, Shanghai Cooperation Organization, and Gulf Cooperation Council³. At the same time, the experience of monetary integration through the Euro in Europe, which African regional blocs seem to emulate, does not look entirely compelling and puts the entire logic of monetary integration in doubt.

Therefore, the conference will try to find answers to the following questions: are regional single currencies the way to go in Africa? What to think about the continental single currency project of the African Union? Could monetary integration be conceived of in ways other than through

³ James Rickards, *The death of money. The coming collapse of the international monetary system*, New York: Portfolio/Penguin, 2014.

single currency unions? Indeed, one important insight of Modern Monetary Theory (MMT) is that countries with sovereign currencies (national currency operating with a flexible exchange rate and zero debt in foreign currency) are not financially constrained. To what extent does this insight apply to countries somehow facing a balance of payments constraint? What political recommendations could be derived from MMT principles regarding African countries? Finally, what type of international monetary system would better suit the economic and financial needs of developing countries generally and African countries in particular?

To that end, there is a need to have an update on the process of monetary integration in Europe and Africa but also (i) to study the constraints and opportunities offered by the current international monetary order, (ii) to draw lessons from the European monetary experience and its derived Eurozone crisis, which could be useful for African countries and vice versa, and (iii) to discuss alternative monetary systems that enable the socio-ecological transformation of the continent.