Firm-level responses to monetary union and exchange rate regime: evidence from Cote D'Ivoire and Ghana

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FIRM-LEVEL RESPONSES TO MONETARY UNION AND EXCHANGE RATE REGIME. EVIDENCE FROM COTE D'IVOIRE AND GHANA

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ABSTRACT

This study investigated the impact of the exchange rate regime as well as monetary union on businesses in West African countries based on two cases: Cote d'Ivoire and Ghana.

Explicitly, the main hypothesis covers Ivorian and Ghanaian firms' responses to monetary union and exchange rate regime.

Two sets of questionnaires needed one in French for Ivorian firms and the other one in English for companies in Ghana.

250 questionnaires had been sent across both countries, Cote d'Ivoire and Ghana. 57 Ivorian companies responded while only 43 Ghanaian were available to fill the questionnaire in. This represents a total response rate of 40 percent, which is appropriate, efficient and adequate for this research study.

Mostly, the empirical results based on the primary information and supported with secondary data, strongly confirmed all of the research hypotheses.

The study found that being member of the CFA zone with a pegged currency to the Euro has helped expand Cote d'Ivoire's trade with the European Union in comparison with Ghana.

The trade statistics in chapter 5 sections 5.3 of the thesis shows evidence of high trade flows from Cote d'Ivoire to the European Union as well as the Rest of the World. That trade expansion has helped Cote d'Ivoire's growth despite its instability due to the military and political upraising. Exports played a vital role in the development of African countries, especially in Cote d'Ivoire. During the period 1973-2005, exports represent on average 39.9 percent of the Ivorian GDP and imports of goods and services 35.9 percent. While Ghana's exports represent only 20 percent of its GDP and its imports of goods and services 27.2 percent for the same period.

Again, the questionnaire-survey shows that overwhelmingly, all firms in both Cote d'Ivoire and Ghana agreed on issues related to the benefit of a monetary union and trade with the European Union with a strong passion on the benefit of operating in a fixed exchange rate regime. Therefore, they all supported the hypothesis that membership of a monetary union is beneficial to member states.

At the microeconomic level, a monetary union has to be a strong combination of competitiveness and solidarity by taking into account modernisation of social policies. Also, it has to be based on growth or output, higher employment and higher productivity.

Finally, a monetary union brings small and medium size enterprises more choices and business opportunities, which will be stronger and more competitive. Large corporations enjoy the eradication of cross-border operations and competition.

Again, wealth is created at the microeconomic level through the ability for firms to produce valuable goods and services using efficient methods.

1.0 INTRODUCTION

Since the 1990s, monetary regime became the focus of many academics and policymakers. It plays a primary role in macroeconomic management. This strong interest has been reinforced following the successful launch of the Euro as the single currency of the European monetary union.

It renews the commitment of those small currency unions already established for some time; and other regions seek to set up similar institutional frameworks and processes of convergence for a monetary integration. According to Raimi & Mobolaji (2008, P 130), the second half of the twentieth century witnessed a discernible shift in the economic and political equation of the world. It is tagged as an age of integration. Countries are coming together all over the world with the idea of coping with global economic imbalances, enhancing domestic growth and development as well as political.

In their quest for stabilisation and growth, countries, especially African states, shifted their attention to monetary union as well as exchange rate regimes.

As a monetary instrument, exchange rate movement is a concern for investors, analysts, managers, governments and policymakers due to its fluctuations. The choice of an exchange rate regime has been and will continue to be a major as well as controversial issue of economic research. Thus, it becomes crucial as a country needs a credible and appropriate system relevant to its international trade and finance flows.

In this sense, our study attempts to assess the impact of a monetary union as well as exchange rate regime on business enterprises in the context of two West Africa countries: Cote d'Ivoire and Ghana. Explicitly, the main hypothesis covers Ivorian and Ghanaian firms' responses to monetary union and exchange rate regime.

These two countries share the same border with some cultural and historical similarities. Their economy is based on the export of agricultural produce such as cocoa and coffee but with two distinct monetary systems.

The first part examines the aims and interests governing this research on the impact of exchange rate and monetary union on businesses of the two selected African countries.

The second chapter covers the different exchange rates system and risks surrounding the international transactions between the two studied countries and the Rest of the World.

Chapter Three evaluates Cote d'Ivoire background information and, the implications for CFA francs on the Ivorian economy covering the membership of Cote d'Ivoire into the West Africa Economic and Monetary Union (WAEMU).

Like Chapter Three, Chapter Four deals with Ghana background information in order to point out the existent relationships between this country and the Rest of the World. Moreover, this chapter covers Ghana's monetary policy and its exchange rates.

Chapter Five analyzes the trade pattern of Cote d'Ivoire versus that of Ghana in order to assess the level of international trade of the two countries.

Chapter Six examines the research design and the methodology used to gather all data on the Ivorian and Ghanaian firms and to analyse the result of the survey-questionnaire. However, the survey of Ivorian and Ghanaian companies provides primary data on the impact of exchange rates and monetary policies on businesses.

Chapter Seven focuses on the interpretation of the results across the survey, which is very important to deeply understand the impact of the exchange rates regime experienced by firms of the two countries, Cote d'Ivoire and Ghana and their international operations.

Chapter Eight covers the analysis of the different hypotheses based on the survey undertaken for both Cote d'Ivoire and Ghana; in order to raise the issue of flexible exchange rate, dynamic benefits and risks for firms of links to a monetary union, fostering the lessons, which can be learnt from the example of the European Monetary Union (EMU).

It, also, focuses on the issues of financial market needs and cost compliance through the changing and influencing business behaviour in Cote d'Ivoire and Ghana.

Finally, the chapter nine summarises the importance of a monetary union, the benefits and costs of exchange rates regime, the contribution to knowledge and recommendations.

1.1 Rationale for Research

There is a vast literature on the choice of an exchange rate regime at macro-level, especially on the benefits and costs of entering a currency union.

Mundell (1973) presents the model of optimum currency union which allows the interplay between monetary policy and exchange rate policy. Particularly, the model emphasizes the difference between fixed and floating exchange rates, degree of international openness and symmetry of shocks.

Masson and Pattillo (2003) in Gudmundsson (2007, P109) argue that at the most basic level, the theory of optimum currency union compares the microeconomic benefits of entering a monetary union in terms of reduced transaction costs with the macroeconomic costs associated with losing the tools of independent monetary policy.

Trautwein (2005, P 21) believes that the institutional forms of monetary integration can be considered as extreme commitments to exchange rate targets. They are credible only if they are expected to be sustainable; and they are sustainable only if the underlying structures of production, trade and finance are dynamically stable.

To Fiawoyife and Abor (2007, P 144), currency union, in Africa, will facilitate trade and investment among countries through the reduction of transactions costs and the removal of the turbulence associated with flexible exchange rate regime. Using the same research methodology, they conducted a sampling survey by distributing 200 questionnaires to firms in Ghana. 62 responded, representing a response rate of 31 percent. This study reveals that firms engaged in international trade have difficulties in trading across borders. These difficulties include bureaucracies in obtaining trade documents, high tariffs, difficulties in pricing in foreign currencies, foreign exchange risks, smuggling, restrictions at border and problems of clearing goods at ports and harbours, unfair competition from informal traders and harassment by border officials.

These difficulties, the firms believe, would be reduced, if not, entirely removed by regional integration. Consequently, regional integration would provide enough incentives for increased participation in foreign trade and investment (P151).

Broz et al. (2007, P 4) argue that little academic work directly addresses the exchange rate attitudes to business owners operating in different sectors of the economy. By contrast, there is a large body of work that examines sectoral and factoral attitudes towards trade policy. Using firm-level data from the World Bank's World Business Environment Survey (WBES), Broz and his team find systematic patterns linking sector of economic activity to exchange rate policy positions. The study exploits a large cross-

national survey to try to uncover the relationship between the economic activities of firms and their owners and managers' attitudes towards the exchange rate.

Such analyses typically present that international oriented firms will be especially averse to the volatility associated with a floating rate and will therefore prefer a fixed exchange rate. They also typically suggest that tradable producers will be particularly averse to the relative price effects of a real appreciation. Non-tradable producers, conversely, are expected to prefer floating rates and an appreciated currency (P 23).

According to Acquaah (2009, P46), the globalization of the world economy and the surge in competitive pressures in today's business environment has led many emerging economies in Sub-Saharan Africa to transform their economies from state-controlled capitalism towards private entrepreneurial capitalism. Economic liberalization policies and privatization of state-owned enterprises (SOEs) have been used as central mechanisms in promoting efficiency, productivity growth, economic development and international competitiveness of enterprises. The economic transformation policies have led to the creation of different forms of business organizations with the principal forms being wholly owned enterprises by domestic entrepreneurs and international joint ventures (IJVs) between foreign firms/entrepreneurs and local firms/entrepreneurs.

In Ghana, the changes in investment legislation over the past two decades have favoured IJV formation as a means of attracting foreign direct investment (FDI). For example, the Ghana Investment Promotion Acts of 1985 and 1994 have made it easier for foreign companies to form an IJV instead of establishing a wholly owned subsidiary by requiring foreign companies to invest a lower equity capital for IJVs than a wholly owned subsidiary. He conducted a survey on 200 largest companies selected from the Ghana Business Directory (2001). Out of these 200 companies, 100 were IJVs between foreign firms and Ghanaian firms with the foreign firms holding at least 10% equity in the IJVs. Approximately 82% of the IJVs were manufacturing firms (mostly in building and construction, chemicals, food and beverages, metals, mining, and textiles), while 18% were in services (mostly in banking, insurance, information technology services, automotive retailing, and food packaging and export). The data were collected from senior executives of the IJVs, which were made-up of mostly chief executive officers (CEOs), deputy CEOs, directors of human resources and marketing (for strategic,

organizational, and environmental information), and heads of the finance/accounting function (for performance information) operating in Ghana (P 50)

The findings clearly indicate that because IJVs with partners from advanced industrialized economies posses superior resources and capabilities and have reputational advantages than IJVs with partners from emerging economies, they rely on their superior resources, capabilities, and reputational advantage to compete in low-income emerging economies. On the other hand, IJVs with partners from emerging economies recognizing their lack of credibility in the eyes of consumers as producers of quality or differentiated products use their resources and capabilities to focus their attention on the masses at the bottom of the income ladder in low-income emerging economies by pursuing the cost leadership strategy. Thus, IJVs with partners from emerging economies are forced to develop alternative models based on price/value tradeoffs in harnessing the potentially vast untapped market at the base of the pyramid in emerging economies (P 57).

The study of Robson and Freel (2008, P 431) is concerned with identifying the characteristics of exporters in the three main non-governmental sectors of the Ghanaian economy (manufacturing, services and agriculture). Exports represent a flow of income into the economy, increasing wealth and standards of living. Moreover, exporting firms are frequently involved in higher value-added activities and, to a greater extent, represent the relative competitiveness of national economies. Identifying such firms and facilitating their endeavours (or encouraging others to emulate them) are familiar policy themes.

Their studies as well as others like (Bonaccorssi 1992, Calof 1994, Javalgi et al. 2000 and Ruzzier et al. 2007) have provided a number of valuable insights into the characteristics of small exporters in terms of relative innovativeness, investments in skills labour, firm growth, enterprise maturity and so on.

The objective of their survey was to gauge the state (and nature) of enterprise in Ghana. In total, 500 entrepreneurs provided usable responses, representing an 83.2% response rate. The respondents are classified as entrepreneurs to the extent that they meet Gartner's (1988) definition of entrepreneurs: they created their own firms, they manage the firms, and they and their families own the firms. Their sample included businesses from agriculture, manufacturing and services (P 435).

They have argued that the greatest barrier to a developed understanding of the behaviours and challenges of African entrepreneurs and small firms is the absence of competent firm-level datasets. To this end, their contribution here is empirical. Large-scale survey data is sufficiently rare, in sub-Saharan Africa, as to be remarkable.

They believe their findings are more notable than might initially appear to be the case for two reasons: the first simply reflects the importance of evidence-based policy. It is one thing to believe something to be so. It is another to have it confirmed by independent evidence. They find the congruence between policy rhetoric and our evidence reassuring. This should not be taken as an endorsement of government policy – a sensible and detailed appraisal of which is beyond the scope of both this paper and our data. They recognize these findings reinforce the importance of investments in innovation and skills, irrespective of sector. Such investments are likely to matter to economies dominated by agriculture, as well as to those dominated by services or manufacturing (P 447).

Chelariu et al. (2002, P 457) attempt to examine two issues related to the implementation of market orientation among sub-Saharan African firms especially Cote d'Ivoire. They stress that Ivorian firms can, potentially, compete in world markets with appropriate market-oriented strategies. Recent changes in US trade policy and global market conditions suggest that creating a market orientation may be strategically imperative for African firms in countries such as Cote d'Ivoire. That policy was marked by emphasis on encouraging fair trade among African countries but require more marketing skills from firms to compete in US market. They conducted a field survey combining questionnaire and telephone interview of 200 Ivorian firms. Given the small size of the population of firms in Cote d'Ivoire, 109 out of 200 mailed, is considered acceptable for a response rate of 55 percent. The respondents represent firms in public sector, private national, private foreign and various combinations of firms in these three categories.

The findings of their study show that Ivorian firms must realign structural influences, systems and incentives to reflect both the objectives of the firm and to be sensitive to local conditions. However, factors such as lack of marketing skills, lack of financial resources and government intervention like price controls, are likely to be important deterrents in implementing market orientation (P 467)

A frequently cited corollary of East Asia's remarkable economic dynamism is that its economies are rapidly and spontaneously integrating with one another. Although many of the reasons for such integration, and its consequences, have been extensively studied, the cross-border activities of firms have not.

According to Dobson and Yue (1997, P 3), international firms create linkages across borders in their search for profitable opportunities through trade, foreign direct investment (FDI), technology contracts, and other arrangements that provide flexibility needed to adjust to change and uncertainty in increasingly competitive factor and product markets. Change and uncertainty are generated in markets by such factors as technological advance, exchange rate volatility, and governments' policies and regulations affecting market access and production costs. Host governments in East Asia encourage FDI inflows to augment domestic savings, to promote technological transfer to accelerate economic development, and to obtain access to international markets for their exports.

The purpose of their study is to examine the trade and investment activities of international firms in selected manufacturing industries in eight East Asian economies such as China (Guangdong province), Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan, and Thailand in order to assess their impact on regional economic linkages.
A total of 241 firms were surveyed in the eight economies. The surveys gathered data on sales and procurement within firms and groups, as well as information on sources and uses of capital and production efficiency (P 19).

Dobson & Yui (P 263 - 266) reveal that the first implication concerns international firms' impact on regional integration. The impact is mixed. Firms investing from within the region are more likely to contribute to intraregional trade than those investing from outside the region. Most international firms, as they mature, aspire to global strategies; hence, intraregional production and trade tend to be organized or, at least, to be rationalized within a global rather than strictly regional division of labour.
The second implication is directly related. The close ties between the regional activities of multinationals (and those of the larger regional firms) and their global strategies have important implications for governments' roles in influencing locational advantages. In a

number of countries, the domestic market is still not fully open. Firms in Thailand surveyed by Ramstetter, for example, saw the lack of transparency in import regulations as a persistent problem. Governments continue to rely on more direct interventions in the forms of fiscal incentives and performance requirements.

The third policy implication relates to the high degree of intrafirm trade. Intrafirm trade increases because of disintegration of numerous discrete value-chain activities within the firm to reduce transaction costs. Also, it is a positive development in economies pursuing industrial upgrading and enables East Asian economies to embark on export manufacturing without having to undergo a lengthy and costly period of building up technological, exporting, and marketing capabilities.

From the perspective of the international firm, intrafirm trade ensures greater control over both upstream suppliers and downstream markets, particularly in business environments characterized by diverse political, economic, and legal frameworks. But the use of local suppliers, as well as the transfer of technology and industrial know-how from foreign investors to local firms, has been slow because it raises transaction costs, particularly among the less-internationalized firms. The more experienced the international firm is, the more it is capable of locating and using local suppliers.

They find that there are several implications for host governments. Because investment and trade are increasingly complementary, it is no longer logical to separate FDI and trade in domestic-policy formation. Trade-related investment measures (TRIMS) and investment-related trade measures (IRTMS) should be integrated to achieve policy coherence and effectiveness, for example. The high degree of intrafirm trade means a loss of policy sovereignty by governments, particularly with respect to transfer pricing, which must be dealt with through tax policy. Perhaps most significant, while FDI inflows represent the augmentation of domestic with foreign savings, as well as technology transfers and opportunities to migrate up the industry value chain, the negative implication is that host economies become more vulnerable to fluctuations in the world economy because of the increasing homogeneity of the region's manufacturing industrial structure (which exports final goods outside the region). When the world economy slows, as it did in 1995–96, demand for the region's consumer durables and consumer goods declines, with a cascading effect through the region's production networks.

The fourth implication is that these arguments strengthen the case for regional intergovernmental cooperation. Governments should bow to the market forces pushing integration by removing obstacles to intraregional trade flows. They should open domestic economies to allow for greater participation in the international (global) division of labour. They should cooperate in providing favourable conditions for investment, including the freer flow of product information and accelerated preferential trading arrangements and should cooperate to remove restrictions on new forms of firm cooperation, such as strategic alliances.

Multilateral measures are under active discussion within the WTO. Such measures would encourage governments to liberalize FDI regimes and converge toward common standards on right of establishment, fair and equitable treatment, protection against nationalization, international-dispute settlement, and assurances for the repatriation of earnings and capital. Capping fiscal and financial incentives to reduce distortions should also be considered. The interests of multinationals are directly related to progress in these areas. When regional exports slow down in response to currency appreciation or slowing external demand, as they did in 1995 – 1996, multinationals run the risk of a hostile reaction to slower growth, blaming them for what, in reality, are cyclical fluctuations or the structural consequences of national trade and FDI policies.
They concluded that one of the main findings of their study is that East Asia's economic integration rests not only on its rapid growth and the proximity of diverse economies but also on firms cooperating successfully with governments. Multinational and international firms augment the growth of savings, jobs, and incomes, but their objectives will not always coincide with those of host governments. It is in the interests of both players to assist in achieving self-sustaining growth, which in turn depends heavily on productivity growth. Also, they find production networks contribute to regional integration, but this exchange of intermediate goods risks structural and cyclical vulnerability because final-goods markets, particularly at the high end, lie outside the region.

Mesquita & Lazzarini (2008, P 359) integrate the resource-based view, transaction cost economics, and institutional theory to model how collaboration among small-to-medium-sized enterprises (SMEs) in environments of weak infrastructure and

institutions help them achieve greater collective efficiencies and access to global markets.

To them, in most developing economies, firms are urged to become internationally competitive to boost exports and decrease country risk exposure; at the same time, these firms tend to be deprived of the superior technology and supporting infrastructure often found in developed countries, such as government support, efficient ports, shared scale-efficient resources that would ease reaching global markets. Ironically, although forging inter-organizational collaborative arrangements appears to be critical for SMEs in weak infrastructure settings, it is precisely in those countries that firms also suffer from a host of institutional failures, such as poor legal systems, discretionary governmental policies, and inefficient regulation, that hinder the pursuit of joint action and impose high investment uncertainty and exchange hazards.

They conducted a survey on 521 firms in the furniture business in the province of Buenos Aires, Argentina. Their response rate was roughly 45 percent (232 responses). In the survey, respondents assessed their vertical and horizontal ties and performance (P 365).

They found that different types of ties matter in different ways for these SMEs' collective efficiencies. For instance, vertical ties yield manufacturing productivity along the supply chain, while horizontal ties enable collective resource use as well as joint product innovation. These collective efficiencies, in turn, serve as competitive currencies helping SMEs access global markets.

They recognize that their study is limited in scope, as it suits only the context of firms sharing environments with limited infrastructure and weak institutions, such as emerging economies. Also, they should try to examine relationships among SMEs in a diverse set of countries in a way that the costs and likelihood of contractual enforcement vary (P 376).

Despite the limitations mentioned above, their hope is that the study will encourage further work on the global competitiveness of SMEs established within emerging economy contexts (P 377).

Abor (2005, P 306) focuses his attention on foreign exchange risk management practices among Ghanaian firms involved in international trade. He seeks to explain

how Ghanaian firms manage their foreign exchange risk and the problems involved in managing exchange rate exposure and finally the extent to which these firms use foreign exchange risk management techniques. Therefore, a survey has been conducted on 100 firms involved in the importation of foreign inputs as well as exporters (60.3 percent of the sample firms were also into exports). Out of the 100 questionnaires sent out, 68 were received, representing 68 percent response rate. Since, most of the importing firms were also into exports, the level of internationalization is measured by trade intensity (ratio of export sales plus import sales to total sales). Simple correlation analysis was used to establish the relationship between the trade intensity and the mean values of each foreign exchange risk management technique. Data obtained from respondents were entered into an SPSS database application for analysis. Descriptive statistics were basically used in the presentation and analysis of empirical results.

Foreign exchange risk is mainly managed by adjusting prices to reflect changes in import prices resulting from currency fluctuation and also by buying and saving foreign currency in advance. The main problems firms face are the frequent appreciation of foreign currencies against the local currency and the difficulty in retaining local customers because of the high prices of imported inputs which tend to affect the prices of final products sold locally. The study also indicates that the majority of the respondents never use hedging techniques in managing their foreign exchange risk. Overall, Ghanaian firms involved in international trade exhibit a low level use of the hedging instruments due to the low level of education and sophistication among the firms' treasury personnel and the under-developed nature of the financial markets (P 312)

1.2 Background to the research

The method used in gathering information is based on previous theoretical perception of various authors, periodicals, journals and any other sources related to this research work. These materials are considered secondary data. It focuses on information on EMU, Cote d'Ivoire and Ghana. According to Blunt and Jones, 1992 in Chelariu et al. (2002, P 457), Sub-Saharan Africa is one of the world region that has seen little testing of both indigenous as well as Western business theories. Therefore, our study is interesting from both academic and managerial perspectives in order to reveal the Ivorian and Ghanaian business sector.

The primary information is based on a survey questionnaire of business enterprises in Cote d'Ivoire and Ghana.

1.3 Aim and objectives

The thesis focuses on businesses of two West African countries sharing the same border, both with significant agricultural export sectors but with two different systems of exchange regimes: one, a CFA country and the other, a non-CFA country.

The economies of Cote d'Ivoire and Ghana is analysed to provide a background to assessing the impact of exchange rate regime as well as monetary regime on the two countries' firms.

However, El-Masry and Abdel-Salam (2007, P 741), using 364 UK non-financial firms listed on London Stock Exchange, which have historical data available on from Datastream and Worldscope Databases for the period from January 1981 to December 2001, examine the effect of firm size and foreign operations on the exchange rate exposure of these companies. Generally, companies are exposed to three types of foreign exchange risk: accounting (translation) exposure, transaction (commitment) exposure and economic (operational, competitive or cash flow) exposure. Theory supports the existence of a relationship between the value of the firm and exchange rate movements. Economic theory suggests that changes in the exchange rate can produce a shift in stock prices, directly in the case of multinational firms, exporting and importing companies, firms which import part of their inputs and indirectly for other companies. Exchange rate movements affect both the prices of imported finished goods and the costs of imported inputs, thus influencing indirectly those companies that compete with such firms.

They hypothesized that large firms can be expected to exhibit relatively high levels of multinational activity and, hence, exposure so, the larger the firm size, the lower the exposure should be. Larger firms should have sufficient resources, in terms of personnel and knowledge, to hedge their risk in international transactions leading to lower exposure. Firms with high level of international activity are the ones with greater exposure. However, they are also the ones with the incentive to hedge their exposure. As a result, the level of international activity can lead to higher or lower exchange rate exposure (P 742).

They find that that exchange rate exposure has a more significant impact of stock returns of the large firms compared with the medium and small-sized companies. The evidence is consistent across all specifications using different exchange rates. Consistent with common expectations that companies with a higher extent of foreign operations are more exposed to exchange rate fluctuations, the results provide evidence that the proportion of significant foreign exchange rate exposure is higher for firms, which generate a higher percentage of revenues from abroad. The analysis also shows that the percentage of positive exchange rate exposure coefficients is greater among firms with foreign sales. The evidence means that firms, which generate a higher percentage of their revenues from abroad, are more negatively affected by a depreciation of the pound. A decrease in the pound value affects the value of these companies through its impact on firms' international competitiveness and profits denominated in foreign currencies (P 761).

This study is confirmed by Bradley and Moles (2002, P 28) stating that the effect of exchange rate movements on firm value is important to firms engaged in international transactions. These accounting exposures can be managed using financial instruments. The increasing economic integration and development of global markets means that few companies, if any, are unaffected by currency movements.

Unexpected changes in exchange rates affect firms' ability to sell abroad, increase the cost of foreign-sourced inputs, and reduce their domestic and international competitiveness.

Firms involved in international trade are subject to transaction risk arising from payables and receivables in foreign currencies. In addition, multinational firms with operations in several countries will have translation risks from having assets and liabilities denominated in foreign currencies. Economic exposure includes these accounting effects but also incorporates the competitive situation of the firm (Shapiro, 1992). Even firms, not subject to accounting exposures, by only sourcing in and servicing in their domestic markets, face economic currency exposure.

With 51 percent response rate, their findings indicate that a significant proportion of UK firms are willing to make use of operational and strategic techniques to manage long-run exchange rate exposures. This proportion is higher for those firms that can take advantage of the opportunities offered by owning foreign subsidiaries. The use of

operational hedging techniques is also likely to be higher, the greater the sensitivity to exchange rate movements of a firm's sales volumes, profit margins and input costs. The proportion of respondents reporting the use of marketing, production, and financing strategies to manage economic exposure is higher than that reported in prior surveys of UK and US firms (P 37).

At the macroeconomic level, the choice of an exchange rate regime for developing and emerging countries is an ongoing and important debate. Akofia-Sowah (2009, P 296) reveals that intermediate exchange rate regimes are no longer viable, and that developing and emerging countries have to adopt either an extremely fixed or a fully flexible exchange rate regime. In an attempt to gain policy credibility, many countries have opted for extremely fixed regimes such as a currency board, monetary union, or official dollarization. Although economists have extensively discussed the costs and benefits of fixed and flexible exchange rate regimes, an opportunity to further explore the economic implications of these regimes is presented in the exchange rate pass-through literature. Typically, the exchange rate pass-through is defined as the percentage change in local currency import prices resulting from a 1% change in the exchange rate between the importing and exporting countries.

To Akofia-Sowah (P 298 - 306), Mundell (1961) put forth the criteria for establishing a common currency; a high degree of capital and labor mobility, greater flexibility of wages/prices, greater (actual or potential) trade among member countries, and a similarity in the shocks that the member countries face. Monetary integration is said to reduce transactions costs, enhance trade, and stimulate economic growth. It also means that member countries have to forego the use of independent monetary policy to respond to shocks that may be asymmetric in nature.

Monetary integration can take many forms; formal or informal exchange rate union, full monetary union, official dollarization, and currency board. In Africa, monetary integration has taken the form of a monetary union, while official dollarization has been more prevalent in Latin America.

The above finding suggests that exchange rate movements in Sub Saharan Africa are perceived to be permanent while exchange rate movements in Latin American are viewed as transitory. Firms are therefore more willing to adjust their profit margins in Latin American than in Sub Saharan Africa in response to swings in the exchange rate.

Furthermore, Giovanni and Shambaugh (2008, P 341) argued that major country interest rates have a strong impact on conditions in other countries. At the same time, the open economy "trilemma" and empirical tests of it suggest that only countries with pegged exchange rate regimes give up their domestic monetary autonomy. This loss of autonomy then implies a potential channel through which foreign interest rates can affect pegs and floats differently, with pegs being directly affected by foreign interest rates and floats insulated from these rates.

Objectives

The focus of this study is the following:

- Better understanding of the mechanism surrounding the Franc zone;

- Investigate the relationship between the Euro and the CFA Franc including the trading link between the two blocs;

- Analyse the impact of exchange rate regime on Ivorian and Ghanaian firms knowing Cote d'Ivoire is part of a monetary union whose currency is pegged to the Euro while Ghana adopted a flexible exchange rate system since the 1980s;

- Identify the effects of the exchange rate regimes on transactions between West Africa and the Rest of the World;

- Provide a clear understanding of the effectiveness and efficacy of a monetary union for firms.

This study will be a source of reference to governments and policy makers. They need to redirect their attention on specific issues such as choice of exchange rate system, capital inflows, monetary union and socio-political stability. It will open ways to multinationals planning to conduct business activities as well as those already in operation in the West Africa region. It is also a contribution to the literature covering the implication of exchange rate regime for firms in Africa.

1.4 Hypotheses: To be Tested by Questionnaire Survey

No	Research Hypothesis	Chapter Reference	Related Questionnaires
1	For both Ivorian and Ghanaian firms, there is a relationship between exchange rate and firm's characteristics.	Chap 2 & 5	9, 12, 13, 14, 24
2	For Ivorian and Ghanaian, exchange rate as well as monetary union influence and change business behaviour	2, 3, 4, & 6	19, 43
3	For both Ivorian and Ghanaian firms, the impact of the exchange rate fluctuation affects company success including its competitive advantage	Chap 2 & 5	17, 18, 24, 28, 29, 31
4	For Ivorian and Ghanaian companies, there is a relationship between exchange rate regime and company failure	Chap 2 & 5	16, 24
5	Fixed exchange rate regime and therefore monetary union encourage international trade and investment for Ivorian businesses.	Chap 2, 3 & 4	24, 25, 26, 32

1.5 The structure of the study

Figure 1.5: The Structure of the Study

CHAPTER ONE **INRODUCTION**
• Rationale for the research • Background to the research • Aims and objectives • Hypothesis • Structure

CHAPTER TWO **EXCHANGE RATE SYSTEM AND RISKS**
• Exchange rate mechanism • Exchange rate regimes in Africa • Exchange rate fluctuations • Foreign exchange rate markets and risks

CHAPTER THREE **COUNTRY PROFILE: COTE D'IVOIRE**	**CHAPTER FOUR** **COUNTRY PROFILE: GHANA**	**CHAPTER FIVE** **TRADE PATTERNS: CIV vs. GHANA**
• Cote d'Ivoire background • Benefits and costs of a monetary union	• Ghana background • Ghana monetary policy • West Africa regional integration	• Definitions • Data issues • Analysis of trade using data and graph • Conclusion

CHAPTER SIX **METHODOLOGY**	**CHAPTER SEVEN** **RESULTS**	**CHAPTER EIGHT** **HYPOTHESES ANALYSIS AND DISCUSSION**
• Firms within fixed exchange rate system • Firms with floating regime • Business environment • The design • Selection • Firms classification • Size distribution • Dates • Problems • Responses	• Comparative descriptive • Difference of means • Interpreting results • conclusion	• Hypotheses analysis using frequency, cross-tabulation and chi-square tests • Hypotheses analysis using correlation tests

CHAPTER NINE **CONCLUSION**
• Conclusion • Contribution to knowledge • Recommendations • Future Research

2.0 EXCHANGE RATE SYSTEMS AND RISKS

Generally, any currency can be used to write any international contracts but its attractiveness depends crucially on whether or not it is attractive as a medium of exchange. However, open borders, liquid markets and the absence of restrictions on capital movements are all essential to this attractiveness. Also, the currency must hold its purchasing power over the periods for which contracting parties may be concerned.

From the beginning upon the establishment of governmental organisations, the value of a nation's currency depends on the confidence in the decision-making institutions of the issuing country. Nowadays, countries have the opportunity to develop sufficient international confidence in the stability of their institutions to have their currencies playing an international role.

Today, the exchange rate regimes in the international monetary and financial system are deeply different in conception and functioning from those envisaged at the 1944 meeting of Bretton Woods. The conception of that system was fixed but adjustable exchange rates to avoid the undue volatility characterizing floating exchange rates and preventing competitive depreciations while permitting enough flexibility to adjust to disequilibrium under international supervision.

Also, the quantity of gold of each nation's currency determined the gold value of the monetary flows in and out of the country. The balance of payments is the difference between the amount of money flowing into the country (to pay for exports and purchases of domestic financial securities) and money flowing out of the country (to pay for imports and purchases of foreign financial securities). If one country were running a balance of payments deficit with respect to another country, they would settle that difference by transferring gold reserves from the deficit country's central bank to the surplus country's central bank. If the deficit persists, the way to resolve it, is devaluation, a situation that occurs when a central bank decreases its currency's exchange rate in terms of gold or other currencies.

Moreover, in 1971, the US gold stock had fallen below US$10bn with no end to the balance of payment deficits. As a result of increasing inflationary pressures both at home and abroad, the US suspended the conversion of dollars into gold and allowed the value of its currency to fluctuate with market conditions. This marked the end of the

Bretton Woods system. So, the system of floating exchange rates was adopted. As result, market forces of supply and demand freely determine the value of each currency.

2.1 Exchange rate mechanisms

Foreign exchange rates are the price of one currency in terms of another. Fabozzi and Modigliani (1992, P 664) have defined the exchange rate as the amount of one currency that can be exchanged per unit of another currency. For example, the exchange rate between the US Dollar and the Swiss Franc can be quoted in two ways:

a) The amount of US Dollars necessary to buy one Swiss Franc or the Dollar price of one Swiss Franc.

b) The amount of Swiss Francs necessary to buy one US Dollar or the Swiss Franc price of one Dollar.

The exchange rate quotations can be direct or indirect so one currency is considered as local currency and the other as a foreign currency. However, a direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency. In contrast, an indirect quote is the number of units of a foreign currency that can be exchanged for one unit of a local currency.

If both currencies are non domestic, then we have a currency cross rate for example, in Japan, the dollar-sterling exchange rate is a cross rate while in the UK or US, it is not. So, to avoid any kind of confusion, all exchange rates are characterised as cross rate or as hyphenated. The first currency described in the hyphenated exchange rate is the one being quoted and the second is the currency of denomination.

Again, all currencies are traded in terms of US dollar- foreign currency. By convention, people are always stated exchange rates in terms of foreign currency units per $ US. In that sense, the "foreign currency- US dollar" is that the price of the foreign currency will always be denominated in terms of the US dollar.

According to Allen (1997, P 247), since there is no limitation on how combinations of currencies can be quoted, all exchange rates must be internally consistent.

Moreover, the cross rate has been defined as the theoretical exchange rate between two countries other than the USA can be inferred from their exchange rate with the US Dollar.

Given the vast literature on the choice of an exchange rate regime, the issue will be examined in the context of African economy. It is due to the fact that exchange rate is very important to economic activities. It is the most important price in any economy and routinely set or at least targeted by many governments.

2.2 Exchange rate regimes in Africa

In post-independence era, most African countries inherited the fixed exchange rate regimes, drifted towards a time of greater regulation at economic level as well as monetary which encompassed exchange rate controls frequently combined with rationing.

In independence, the monetary regimes were based on currency boards. For example the only role of the central bank was to issue local notes at fixed exchange rates, which in turn represented claims on the colonial government. Thus, most countries considered a national currency as an important move towards strengthening their identity as sovereign countries, and a number of currencies had been created in Africa.

Simultaneously, the perception of monetary policy changed at the time due to the fact that it had been considered as a tool to secure national development coupled with fiscal policy.

After independence, monetary policy diverged in two directions: the regime that required monetary policymakers to adhere to strict rules and hence policy reacted automatically to events; and the regime where discretion was allowed.

It is also probable that the majority of African countries will continue to peg their exchange rates to a single foreign currency. These countries have a large trade partner that provides a standard of reference for setting the peg and visitors having access to a strong and internationally liquid foreign currency. It also helps those economies to minimize potentially large transaction costs and exchange risks. Finally, these small economies have strong political and cultural links with the country that issues the reference currency.

2.2.1 Floating exchange rate regimes

A flexible exchange rate regime allows large shocks to be more easily contained than pegged or quasi-pegged exchange rate regime and avoids the large costs, which often follow a breakdown of the exchange rate regime in comparison with the adjustment of an already flexible exchange rate.

Floating allows great flexibility for monetary policy at the time of exchange rate pressures and economic difficulty. The floating regime provides that the exchange rate really moves up and down in response to market forces. Businesses and financial institutions are forced to be aware of the risks inherent in foreign currency borrowing and other exposures to foreign exchange risk. Also, it does not exclude the use of official intervention and adjustments of monetary policy to influence the exchange rate. However, Mussa & al (2000, P 40) stress that the attempt to tightly manage the exchange rate primarily through official intervention tends to recreate the risks and problems of a pegged exchange rate. If the exchange rate is properly managed, interest rates should be a primary tool so that private sector behaviour would be appropriately attuned to situations where aggressive interest rate adjustments may occasionally be required to support the exchange rate objective.

Most African countries including Ghana operate some kind of flexible exchange rate regime known to be between free floats and hard pegs due to a higher degree of capital controls, low integration with world capital markets and weak interbank markets.

According to Masson and Pattillo (2005, P 518), these issues lead to the development of parallel auction markets, which increase volatility and accentuate uncertainty for market participants.

Also, due to their underdeveloped financial markets, these countries have good reasons to manage floats more tightly than developed economies.

2.2.2 Fixed exchange rate

The success of a fixed exchange rate regime depends on the capacity of any government to allow the exchange rate to be a big factor in setting domestic policies. As a result, there is a decline in the proportion of fixed rate currencies. However, for countries lacking well-developed financial infrastructures including less sophisticated financial

institutions and broad and deep markets for foreign exchange, pegs can be a simple and credible solution for monetary policy.

According to Mussa et al. (April 2000, P 41) the economic criteria that influence the appropriateness of adopting a fixed exchange rate are the following:

- the degree of involvement with international capital markets is low;
- the share of trade with the country to which it is pegged is high;
- the shocks it faces are similar to those facing the country to which it pegs;
- it is willing of give up monetary independence for its partner's monetary credibility;
- its economy and financial system already extensively rely on its partner's currency;
- because of high inherited inflation, exchange rate based stabilization is attractive;
- its fiscal policy is flexible and sustainable;
- its labour markets are flexible;
- it has high international reserves.

Countries with pegged exchange rates are small economies with a dominant trading partner that maintains a reasonably stable monetary policy and cannot face the costs of attempting to run an independent monetary policy. As a result, WAEMU is successful in delivering low inflation mostly due to its external peg as well as its easy access to the European Union which generates the growth of trade and output.

Furthermore, it has been argued by Fritz-Krockow and Jurzyk (2004, P 12) that a credible fixed peg increases the value of trade between countries.

This is due firstly to the trade concentration because countries which pegged their currency to a major one always have strong existing trade relations with that country. However, the benefits of fixing the exchange rate to the currency of the main partner obviously prevailed over the costs stemming from the low diversity of production and exports and the terms of trade fluctuations.

The second reason is the fact that developing countries have poor development of financial markets.

These authors (P 12) state that one of the important arguments in favour of exchange rate flexibility with respect to trade is that hedging operations for trade earnings and

foreign liabilities are inexpensive. This is probably not the case for most of the poor countries as their financial markets mostly lack depth and volume and the banking system comprises only a few banks. Is it unlikely that these financial institutions would offer inexpensive hedging instruments or a sufficient number of domestic entrepreneurs would have access to foreign financial markets for this purpose?

The stability of the exchange rate in such circumstances would have a trade-creating effect. The results seem to indicate that the positive impact of a fixed exchange rate arrangement on trade has been decreasing over time due to a great number of developing countries moved between fixed pegs, intermediate regimes and free floats.

2.2.3 Soft pegging

According to Babula and Otker-Robe (2003, P 3 - 4), soft peg is an intermediate regime between hard pegs and floating rates as well as tightly-managed floats which have been at center stage in most major crises in recent years. In this light, there has been growing support for the view that such regimes will not be viable for any lengthy period of time, particularly for countries highly integrated with international capital markets, the so-called bipolar view of exchange rate regimes. The viability of soft peg regimes in particular has been questioned: in many instances, soft pegs broke down as the authorities directed monetary policy toward domestic goals in an environment with high capital mobility. The proponents of the bipolar view hence argued that pegs could not be maintained under high capital mobility unless the country makes an irrevocable commitment to the peg (as in hard peg regimes) and is prepared to support it with necessary policies and institutions. The only feasible alternative to such commitment would be to float, putting the country under the discipline of the markets on a continuous basis. Hard peg commitments or floating regimes hence have been argued to be the only regimes compatible with increased capital mobility. Some observers argued for a continued role for intermediate regimes, noting that no single regime would be right for all countries at all times or that certain types of intermediate regimes (e.g., band, basket, crawl) could help prevent misalignments and provide greater flexibility to cope with shocks; some corner regimes, on the other hand, could generate misalignments that could damage their sustainability.

Wagner (2005, P 618) argued that the main lesson learnt from the Asian crisis is that a mixture of liberalised capital markets and imperfect institutional adjustment involves a problem for countries which choose soft pegging as their exchange rate system.

A softly pegged exchange rate regime, although it may be a successful strategy for controlling inflation, may increase financial instability (Berger and Wagner, 2001). This danger arises in particular in emerging markets with a weak banking and financial system. An exchange rate peg that has been stable for a rather long period of time may lead market participants to underestimate, or even totally neglect, the exchange rate risk. Excessive capital inflows are the consequence. This process is spurred on if the countries sterilise the massive capital inflows thereby raising domestic interest rates far above the international rates. Thus, a large amount of foreign-denominated debt is accumulated, which makes a country vulnerable to sudden shifts in market sentiment.

Since the institutional framework (including the financial system) cannot be overhauled and completely reformed within a short period of time, the choice of exchange rate regimes gains a special significance for avoiding financial instability in emerging and transition economies. There are two polar regimes or corner solutions that could be implemented to avoid some of the severe consequences of financial instability associated with the intermediate regime, namely hard pegging and free floating.

2.3 Exchange rate fluctuation

The value of any currency is determined by the demand for goods, services and assets denominated in that currency as balanced by the supply of the currency.

Fluctuations in the value of the currency will occur when either demand or supply varies. However, the balance of payments is an important determinant of these forces of supply and demand. Unanticipated changes in the balance of payments may cause currency fluctuations that create foreign exchange rate risks exposure.

The balance of payments comprises two accounts: the current account and the capital account. The current account records all flows associated with international trade in goods and services while the capital account records all the international borrowing and lending flows.

According to Allen (1997, P 271) by definition the total balance of payments for any country cannot be out of balance. Deficits in the current account are balanced by reactive surpluses in the capital account. However, these reactive offsetting surpluses in the capital account can be used to forecast exchange rate fluctuation. If a country is running a deficit in its current account and in its autonomous capital account then interest rates and exchange rates must fluctuate so as to induce an offsetting surplus in its reactive capital account to bring the balance of payments into balance.

Again, if the current markets are efficient, then exchanges rates are determined by new information about fundamentals that generate changes in expectations. Increasing real economic activity and the rate of price, inflation will increase the demand for money. Increases in interest rate decrease the demand for money.

Since the exchange rate fluctuations are a fact of life in either fixed or floating exchange rate policy and result in the determinants of currency risk, the forward premium/discount can be used to measure the risk of exchange rate fluctuations.

If the forward rate is an accurate predictor of future spot rates then the forward premium/discount can be used to measure the currency risk born by market participants (Allen, 1997, P 273).

Again, there are different sources of risks in financial markets:

- Interest rate risk is a function of rate volatility measured using five indexes of interest-sensitive securities such as treasury bills, long term treasury bonds, mortgage and foreign bonds.
- Exchange rate risk: its volatility is measured using an index of major European currencies and the Japanese yen - US dollar exchange rate.
- Price-level risk is measured using commodity price volatility as represented by an index of US real estate values as well as equity price volatility as represented by five indexes of stock price fluctuations: value stocks, growth stocks and venture capital firms.

Particular attention will be focused on exchange rate risks and the foreign exchange markets later.

2.4 Foreign exchange rate markets and risks

The foreign exchange market is the market in which individuals, firms and banks buy and sell foreign currencies. The foreign exchange market for any currency for instance the US dollar is composed of all the locations such as London, Paris, Zurich, Frankfurt, Singapore, Hong Kong, Tokyo and New York where dollars are bought and sold for other currencies.

The foreign exchange market is designed to transfer funds or purchasing power and currency from one nation to another. These transactions are made by telex or the most common used direct-dialling telephone service. It consists of a domestic bank asking its correspondent bank in a foreign monetary centre to pay a certain amount of the local currency to a person, firm or account.

However, a nation pays for its tourists expenditures abroad, its import, and its investment abroad and so on with its foreign exchange earnings from tourism, exports and the receipt of foreign investments.

If the nation's total demand for foreign exchange in the course of its foreign transactions exceeds its total foreign exchange earnings, the rate at which currency exchange for one another will have to change to equilibrate the total quantities demanded and supplied (Salvatore, 1999, P 424).

If this adjustment in the exchange rates were not allowed, the nation's commercial banks would have to borrow from the nation's central bank which would then act as the 'lender of last resort' and draw down its foreign exchange reserve (balance of payments deficit of the nation).

2.4.1 Foreign exchange risks

A nation's demand and supply curves for foreign exchange shift causing the spot (and the forward) rate to frequently vary. For example, if the US tastes for British product increase, the US demand for Sterling will increase, leading to a rise in the exchange rate (i.e. depreciation of the dollar). On the other hand, a lower rate of inflation in the US than in the UK will lead to US products becoming cheaper for the UK residents. This tends to increase the US supply of pounds and causes a decline in the exchange rate (i.e. appreciation of the dollar).

From the perspective of a US investor, the cash flows of assets denominated in a foreign currency expose the investor to uncertainty as to the cash flow in US dollars. The actual US dollars that the investor gets depend on the exchange rate between the US dollar and the foreign currency at the time the non-dollar cash flow is received and exchanged for US dollars (Fabozzi & Modigliani, 1992, P 667).

If the foreign currency depreciates against the dollar (US dollar appreciates), the dollar value of the cash flows will be proportionately less. This risk is called foreign exchange risk. However, any investor who is buying an asset denominated in a currency that is not the medium of exchange of the investor's country faces foreign exchange risk.

In a dynamic and changing world, exchange rates frequently vary, reflecting the constant change in the numerous economic forces simultaneously at work. Those frequent and relatively large fluctuations in exchange rates impose foreign exchange risks or open-position on all individuals, firms and banks that have to make or receive payments in the future. However, the spot exchange rates are changing over time. Thus, businessmen are risk averse and will want to avoid or insure themselves against any foreign exchange risks. So, the spot exchange rate market is the market for settlement within two business days. The main factor which affects the expectation of changes in a country's exchange rate is the relative expected inflation rate. The spot exchange rate adjusts to compensate for the relative inflation rate between two countries. This adjustment is also called purchasing power parity relationship.

Again, arbitrage does not involve any exchange risk since the currency is bought at the cheaper price in one monetary centre and sold immediately at the higher price in another monetary centre.

A foreign exchange risk arises not only from transactions involving future payments or receipts of foreign currency (transaction exposure) but also from the need to value inventories and assets held abroad in terms of the domestic currency for inclusion in the firm's balance sheet (translation or accounting exposure) and also in estimating the domestic currency value of the future profitability of the firm (economic exposure).

Authors such as Fabozzi and Modigliani (1992, P 671) think that there are four techniques or instruments that borrowers and investors can use to protect against

adverse foreign exchange rate movements: currency forward contracts, currency futures contracts, currency option and currency swaps.

2.4.1.1 Currency forward contracts

It is a contract in which one party agrees to buy 'something' and another party agrees to sell the same thing at a designated date in the future. The vast majority of forward contracts have a maturity of less than two years. For long forward contracts, the bid is increasing so the size of the bid for a currency is increasing with the maturity. Consequently, forward contracts become less attractive for hedging long-dated foreign currency exposure.

Again, for foreign exchange, the forward market is the market of choice for the so-called interbank market where data on the amount of open interest are not public.

Therefore, the spot rate and the interest rate in two countries will determine the forward exchange rate. The relationship between the spot rate, interest rate and the forward rates called interest rate parity means that an investor after hedging in the forward exchange rate market will get the same domestic return whether investing locally or in a foreign country.

2.4.1.2 Currency futures contracts

Currency futures are limited to hedging long-dated foreign exchange risk exposure. Their maturity is March, June, September and December. The longest is one year. The futures contracts have to satisfy the demand of potential customers: 1. increased volatility in interest rate, exchange rate and market prices put everyone at risks; 2. the rise in activity in the spot markets generates increased liquidity; 3. financial engineering and innovations in cash instruments induce demand for new ways to manage risk efficiently and cheaply; 4. global financial markets are less tolerant of country's regulatory impediments to free capital flows.

2.4.1.3 Currency option

In contrast to a forward or futures contract, an option gives the buyer the opportunity to benefit from favourable exchange rate movements but establishes a maximum loss. The option price is the cost of establishing such risk or return profile.
There are two types of foreign currency options: options on the foreign currency and futures options. The latter is an option to enter into a foreign exchange futures contract.

2.4.1.4 Currency swaps

In a currency swap, there is an exchange of the interest and the principal while interest rate swaps is a transaction where two parties agree to exchange interest payments with on exchange of the principal.

Again, currency swap is an exchange between two parties of either the currency of denomination or the form of interest (fixed versus floating rate) payable debts instruments. Swaps make financial markets more efficient but crossing over barriers to transactions and connecting once isolated corners of the financial world. All parties are winner because they have access to financial markets that they cannot access directly.

One of the best ways to remedy the foreign exchange risks would be the hedging system.

2.4.2 Hedging

Hedging is defined as the avoidance of a foreign exchange risk or the covering of an open-position. So, businessmen could borrow money at the present spot rate and deposit that sum in a bank to earn interest before his payment is due. Thus, the cost of insuring himself against the foreign exchange risks in this way is the positive difference between the interest rates he has to pay on his loan and the lower interest rate he earns on his deposit.

Covering the foreign exchange risk in the spot market, it has a very serious disadvantage. To avoid this, hedging usually takes place in the forward market where borrowing or tying up of own funds is required. Thereby, the importer could buy pounds forward for payment in three months time at today's three month forward rate.

In a world of foreign exchange uncertainties, the ability of traders and investors to hedge greatly facilitates the international flow of trade and investment. Without hedging, there would be smaller international capital flows, less trade and specialisation in production and small benefit from trade.

Large corporations that have to receive and make a large number of payments in the same currency at the same time in the future need only to hedge its net open-position. Similarly, a bank has an open-position only in the amount of its net balance on contracted future payments and receipts in each foreign currency at each future date. The bank closes as much of its open-positions as possible by dealing with other banks (through foreign exchange brokers) and it may cover the remainder in the spot, futures or option markets.

2.4.3 Speculation

Speculation is the opposite of hedging. Whereas hedging seeks to cover a foreign exchange risk, a speculator accepts and seeks out a foreign exchange risk or an open-position in the hope of making profit.

If the speculator correctly anticipates the future change in spot rates, he will make a profit otherwise he will incur a loss. Like hedging, speculation can take place in the spot, forward, futures or option markets, mostly in the forward market.

Speculators are usually wealthy individuals or firms rather than banks. However, anyone who has to make a payment in a foreign currency in the future can speculate by speeding up payment if he expects the exchange rate to rise.

According to Hallwood and MacDonald (2000, P 33) speculation in foreign exchange can take various forms. One of them is ‘pure speculation’ which takes place in the forward market. This has the attractive feature that a foreign currency does not have to be bought and held, so tying up funds.

In practice, speculators will be required to make a margin requirement. Equilibrium for pure speculation is when the expected spot exchange rate for future date equals the forward rate for the same future date.

If ‘pure’ speculators are risk neutral, buying pressure in the forward exchange market will force the equality. Otherwise, they will not force the equality: expected profit on the last contract bought remains positive.

The second type of speculation is ‘leads and lags’ which is often important when a country’s capital account is blocked for resident by foreign exchange controls such as many developing countries. Thus, an importer with an outstanding foreign currency obligation who expects depreciations of the home currency will ‘lead’ paying off the debts to ‘beat’ the depreciation. An exporter holding a similar expectation will ‘lag’ transmission home of foreign earnings so as to benefit from the expected higher value of foreign currency.

In both cases, speculation is occurring because a ’bet’ is being made on the outcome that the domestic currency will depreciate.

Leads and lags may sometimes severely distort flows through foreign currency markets and can be a problem for authorities that are managing the exchange rate.

Banks may speculate in foreign currency simply by not covering with their correspondents any net foreign currency sales that they may have made during the course of a trading day. So, a bank may choose to hold an open-position in foreign exchange.

Other forms of currency speculation have opened up with the recent development of foreign currency option where an investor can pay a premium to have the option to buy or sell a foreign currency. If the currency moves in the expected direction, the option can either be sold at a higher price or the foreign currency can be collected and resold on the spot market. Then, there is always the possibility of keeping foreign currency and using it the next time you travel abroad.

Referring to currency fluctuation, let us analyse the Ivorian and Ghanaian economy with their different exchange rate regimes and history, politics and economy.

3.0 COUNTRY PROFILE: COTE D'IVOIRE

3.1 Country Background

Cote d'Ivoire is West Africa's second richest country after Nigeria due to the booming of its cocoa and coffee sectors since the 1950s. From the 1970s, the country faced enormous economical imbalances but after the 1994 devaluation of the CFA franc, its economy made a strong recovery (OECD, 2002, P 223).

Since 1999, political instability and social unrest and, more importantly, the drop in world commodity prices produced a recession in 2000 and resulted in GDP falling by 3.3 percent in 2001. A slight increase in coffee and cocoa prices and resumption of international aid and cooperation with the IMF produced GPD growth of 1.6 percent in 2004 and an estimated 1.7 percent in 2007 (World Economic Outlook Database, October 2007) but the country's prospects will depend on improving political crisis, governance and combating poverty.

Unfortunately, the Bretton Woods institutions (World Bank and International Monetary Funds) suspended their assistance in December 2003 due to a military rebellion started in September 2002, and which divided the country into two.

3.1.1 Geography

Cote d'Ivoire covers an area of 322,000 square kilometres (127,000 square miles) and lies on the Gulf of Guinea. Mali and Burkina Faso border it in the north, to the west by Liberia and the Republic of Guinea and to the east by Ghana. The climate of the country ranges from that of equatorial rain forest in the south to the drier savannah belt in the north.

Cote d'Ivoire is a middle-sized country and its population is approximately 16.7 million in 2000 and is estimated to 18.7 million in 2007. There are more than 60 different tribes, comprising six principal groups and a large community of foreigners. The country has the highest density in the Sub-Saharan region due to its mild climate and fertile soil because of the forest in the central and southern part of the country. Also, the less fertile north-savannah offers goods conditions for growing cotton, sugar and food crops. This north-south difference and the economic inequality it created, is an important political factor in the country.

3.1.2 History

Cote d'Ivoire was recognized in 1890 by the French authorities because of its excellent agricultural possibilities. Among the French colonies in West Africa, the Ivory Coast was unique in a number of ways. Firstly, the country was unique in being a neglected colony as the colonial rules came later in 1893 in comparison with neighbouring colonies.

Ivorian development through colonialism was short and superficial, historically speaking. This sparsely populated colony provided neither an interesting market for French exports nor a large labour force for colonial agriculture. The population had reached only 2.7 million by 1955. Lacking a natural deep-water harbour, the shipment of colonial goods to France was cumbersome (Alschuler, 1998, P 65).

There were no navigable rivers to the hinterland so colonial economic activities were limited to the coastal and tropical zones to the south. During that period, a significant change, which occurred, was the introduction of cash crops at limited quantity until after the Second World War. However, cocoa was introduced about 1920 followed by coffee in 1930 but the main contribution to the French economy was timber and palm oil until 1925. Cocoa became increasingly important after 1920 but was supplemented by coffee after the world. However, cocoa and coffee constituted on average 90 percent of Ivorian export value. Consequently, the main objective of the introduction of those cash crops was for the colonial administration to have profound influence on Ivorian socio-political structure.

Thus, the period between 1900 and 1930 saw the production of large quantity of coffee, cocoa, bananas and timber. The value of total commodity exports rose from 10 to 300 millions CFA francs (Berthelemy & bourguignon, 1996, P 5).

At the beginning of the introduction of these crops, European farmers predominated in export agriculture with very large plantations which required African labour, while the local plantations were very small and relied on family labour.

Then, the number of African coffee and cocoa farmers grew from 40 000 in 1944 to 200 000 in 1959. Over the same period, the European share in coffee production fell from 55 percent to 6 percent (Alschuler, 1998, P 66). The growing African planter bourgeoisie

took place with fierce resistance from the colonial government. This resistance helped to strengthen opposition to colonial rule and consolidate the independence movement.

Thereby, during World War II, production quotas and the harsh treatment of forced labour incited protests in the French African colonies, led in Cote d'Ivoire by a wealthy cocoa planter, Felix Houphouet Boigny, a former Minister in the French government. His party, PDCI RDA -Rassemblement Democratique Africain, section Cote d'Ivoire- became the major political party. Opposition to the colonial power was of an economic nature rather than an expression of nationalism.

From 1940, the French started building up some infrastructures to exploit more efficiently the country's resources thus an administrative system was set up and shared by the French and local leaders. Later, those leaders found out that their economic interests did not always match with those of France. Thus, they decided to leave the French Community, cutting their political ties with the other former French West Africa (AOF) territories.

In August 1960, Cote d'Ivoire achieved its independence and Houphouet Boigny was elected president of the new country.

Despite independence, the relationship between France and Cote d'Ivoire remained the same. A protocol was signed to maintain preferential tariffs for Ivorian agricultural exports to France and a preferential treatment of French products in Ivorian markets.

The rapid expansion of cash crop exports created a class differentiation. The core of the class structure was set by the planter bourgeoisie, large and medium-size plantation owners and a large rural proletariat. This expansion has attracted a lot of immigrants from neighbouring countries to work as rural wage labour. Also, the need for foreign technical and managerial expertise as well as foreign investors during this period has led to a super-stratification of the society. The growing number of expatriate Europeans and Lebanese reached such proportions that it became an issue for the government to try to "Ivorianise" at the top and bottom of the chain. According to Alschuler (1998, P 68), the exceptional political and social stability of the Ivory Coast might derive in part from the extreme financial control by the most privileged and the European entrepreneurial class.

The exceptional growth of Cote d'Ivoire since independence was due to:

- The shallowness of colonial exploitation;
- The emergence of a stable socio-political structure under the planter bourgeoisie.

Since that date, Cote d'Ivoire has been a politically stable country, one of the few on the West African coast. However, the political landscape changed dramatically, leading to an extreme loss in consumer and business confidence as well as a temporary general suspension of external assistance.

Whilst prosperity seemingly gained a foothold in Cote d'Ivoire during the 1960s and 1970s, the 1980s were marked by an economic downturn, related to the global recession stemming from the second oil price shock and increasing popular dissent. Although, the first true elections were held in 1990, the victory of Houphouet-Boigny and his party, PDCI RDA was surrounded by accusations of fraud.

3.1.3 Politics

From 1960, the Head of State, the President Felix Houphouet Boigny and his party PDCI led the country extremely well until 1993 despite some recession periods due mainly to deteriorating terms of trade.

In 1995, Mr Henri Konan Bedie was elected president and presented himself as the rightful successor of Houphouet Boigny. However, Mr Houphouet developed the structures of the PDCI, the ruling party that dominated the country's political life for four decades.

The 1995 presidential election was considered controversial. Firstly, Alassane Ouattara, standing for the RDR was banned due to doubts about his Ivorian nationality. In addition, another opposition candidate, Laurent Gbagbo of the Front Populaire Ivoirien (FPI) withdrew from the election due to claims of it being manipulated (EIU, 1999).

Dissatisfaction increased in the following years: a 1998 parliamentary decision banned Ouattara once again from standing in the 2000 elections, following an amendment made during the Bedie-era, enabling only those Ivorians to stand for president whose mother and father were also Ivorian (previously, citizenship of both was not a requirement). Popular dissent finally resulted in a 'bloodless' military coup in December 1999.

The military coup, the first in the country's history, led by the General Robert Guei ousted President Bedie who sought political asylum in France. However, Mr Bedie was

widely seen as a corrupt manipulator who pushed the nation to the brink in order to remain in power.

The ensuing elections of October 2000 were however boycotted by the RDR and the PDCI, whose candidates had both been disqualified, yet with General Guei standing as a candidate. Concluding the election, General Guei declared himself head of state, however demonstrations supported by arms forces forced him to concede defeat, allowing Gbagbo, the real winner of the elections to be sworn in. Unfortunately, this outcome was in turn contested by the RDR and the PDCI-RDA. The ensuing political and ethnic violence that erupted over the country cost the lives of over hundred people.

Although Gbagbo created a government of national unity, in August 2002 including RDR and PDCI-RDA, they rejected the president proposition as the majority of key ministerial posts remained with the FPI. Whilst the PDCI threatened to leave the government, it was the Union pour la Democratie et la Paix en Cote d'Ivoire (UDPCI), led by Guei that pulled out of the government in protest.

In September 2002, rebels' soldiers simultaneously attacked Abidjan, Bouake and Korhogo. However, it is still not clear what precisely led to the uprising. While the government initially claimed that General Guei had attempted a coup - Guei was killed in the first day of the uprising - others claimed that it was a settling of old scores. Several days later, some newspapers such as La Voie, claimed that the rebellion was due to 'foreign forces' acting in the country, in favour of Alassane whose parents came from Upper Volts renamed Burkina Faso.

In any case, whatever the actual causes eventually turn out to be, the uprising has destabilized the entire country. While government troops quickly regained control of Abidjan, the northern part of the country remained rebel territory. In fact, the rebels found it relatively easy to advance south and were controlling large parts of the country.

Although relative calm was restored, at the beginning of 2003, due to the fact that French and American soldiers were dispatched to Cote d'Ivoire to calm the situation. It remained fragile but stable since 2007 accords signed between the government and the rebellion. In March 2007 President GBAGBO and former New Force rebel leader Guillaume SORO signed the Ouagadougou Political Agreement. As a result of the agreement, SORO joined GBAGBO's government as Prime Minister and the two agreed

to reunite the country by dismantling the zone of confidence separating North from South, integrate rebel forces into the national armed forces, and hold elections. Disarmament, demobilization, and reintegration of rebel forces have been problematic as rebels seek to enter the armed forces.

However, the real causes of the political-military unrest in the Cote d'Ivoire have their roots in the fact that there are currently more than five million non-Ivorian Africans living in the country. The majority is coming from Burkina Faso, and the rest from Ghana, Guinea, Mali, Nigeria, Benin, Senegal, Liberia and Mauritania. The fact that the social setting did not lead to unrest previously was due to the fact that Houphouet-Boigny had managed wisely to emphasize ethnic harmony during his three or more decades of rule.

Another issue is the recent decision of the government to implement a 1998 parliamentary decision on land reform. In fact, the decree would evict first and second generation immigrants from 'their' land, as under the decree ownership is to be based on ancestral rights.

A further cause of dissatisfaction is no doubt the widespread poverty that characterises the population: Cote d'Ivoire is ranked 166th out of 177 countries of the UNDP's 2007 - 2008 Human Development Index. In addition, corruption is extremely high: Cote d'Ivoire scores relatively poorly on Transparency International's Corruption Perceptions Index 2007, ranking 150th out of 179, a rank shared with Azerbaijan, Belarus, Republic of Congo, Ecuador, Kenya, Liberia, Sierra Leone and Zimbabwe.

The recent political events have had drastic effects on the economy of the country. Investment has fallen sharply; in real terms, the economy has shrunk. Although, stability had to some extent returned, the population is waiting for a presidential election to be held in early 2009, but it has since then been postponed numerous times due to delays in its preparation.

Elections were finally held in 2010. The first round of elections were held peacefully, and widely hailed as free and fair. Runoffs are scheduled for November 28, 2010, after being delayed one week from the original date of November 21. Laurent Gbagbo will defend his post as president against former Prime Minister Alassane Ouattara.

3.1.4 Economic characteristics

Since 1950, the economy of Cote d'Ivoire has been based on agricultural produce - coffee, cocoa and timber. Those commodities have denominated the economy of the country, dictating the pace of economic growth and the present structure of the economy. Between 1960 and 1970, the Ivorian economy functioned extremely well and the average annual growth rate of GDP reached 7.2 percent. It has been called the 'Ivorian miracle' because politicians, economists and others recognized that the general policies were the right ones.

Before discussing growth and structure of the Ivorian economy, let us talk briefly about the three developments plans, which are the base of its economy. The first period (1960-1970) was characterised with the expansion of cash crops for export. The second period (1967-1970), which is short, was only a readjustment of the basic development strategy of the decade. It consisted in diversifying agriculture and industrialising through import substitution. The last period plan (1971-1975) was to deepen import substitution by creating intermediate goods industries and agro-industries for the processing and exporting of locally produced agricultural goods:

Economic development policies: 1960 - 1970

Economic development strategy is viewed as a series of policy refinements punctuated by the development plans of 1960 - 1970 and 1971 - 1975. The success of the country is monitored to continuously meeting challenges and the changing orientation of its political economy, taking into account the foreign capital such as French investment capital and low-wage African labour from neighbouring countries.

As result, the rate of economic growth between 1960 and 1970 was exceptional and has earned for the Ivory Coast the prestige of a 'development miracle' along with Brazil, South Korea and even Indonesia (Alschuler, 1998, P 69).

On one hand, the export sector was designed to lead economic growth while on the other hand foreign capital, foreign labour and imported technology were to enhance that export capacity. So, in 1960, the main policy purpose was to promote and diversify agricultural exports (cocoa, coffee and timber) and to focus on import-substituting industrialisation. The government had introduced other agricultural products such as oil palm, coconut, pineapple, rice, rubber, cotton and sugarcane. Also, the effort to

industrialise the country took the form of heavy public sector investments in infrastructure and an investment code to attract foreign capital. At independence, 87 percent of the Ivorian exports were raw materials, with France absorbing 65 percent while at least 52 percent of imports were processed goods (consumer and equipment goods) mainly from the metropole corresponding to vertical trade.

The objective of the first development plan was to reduce the instability in export earnings through the diversification of export commodities and export markets and finally to reverse the increasingly unfavourable terms of trade by means of import-substitution industries. The primary sector which was a steady and reliable source of foreign exchange was to provide the public sector with tax revenues to build infrastructure projects in agriculture and industry. The expanding industry and agriculture were expected to generate new opportunities for employment, new sources of personal income and to enlarge the domestic market for consumer goods produced in the new import-substitution industries. According to Alschuler (1998, P 71), with the increasing government expenditures on education, again financed from export earnings, more and more Ivorians were expected to fill entrepreneurial roles in industry and high civil service roles in the public sector. The economic and governmental stability, once assured, were to create a favourable climate for foreign direct investment, especially where local private and public sectors were unwilling or unable to invest. In other words, a steadily growing open economy was to permit Ivorianisation and greater income equality.

Intermediary economic development policies: 1967 - 1970

The development plan was designed as a corrective measure for the last strategic plan and set the stage for the development plan of 1971-75. However, the higher foreign investment was over by 1965 and foreign capitals inflows were reduced substantially. Also, the outflow of profit repatriation exceeded the inflow of foreign investment and thus the government created incentives for the reinvestment of profits. It promoted the creation and growth of small and medium size industrial companies. As the limits to import substitution were becoming apparent and as the government's debt service was growing, corrective measures were necessary. Public investment, which had until then favoured industry, shifted dramatically toward agriculture. The amount of public sector investment in agriculture has increased, accounting for 30 percent of all government

expenditure. The hope was that agro-exports could compensate for the unexpected costs of industrialisation (Alschuler, 1998, P 86). As result, in 1968, the government set up two infrastructure projects. The deep water port of San Pedro and the hydro-electric dams on the Bandama River, both designed to open the way for greater local processing of agro-products. The port would facilitate the development of agro-exports in the southwest while the hydroelectric projects would produce power for agro-processing industries.

Economic development policies: 1971 - 1975

The objectives of this plan were added to the existing ones. They consisted of deepening the process of import-substitution through the creation of intermediate goods production, expanding agro-industries for the processing of local agriculture products and continuing to diversify agriculture for export and for domestic consumption. The creation of such intermediate goods was to expand industrial employment, reduce industrial imports and widen export markets in Africa and Europe. Also, the expansion of agro-processing enterprises was to become the focal point of Ivorian development. For example, with the production of cotton and textiles, the greatest contribution to value added occurred in France, with limited benefit to the country. So, it was decided that textiles had to be produced locally with the exported of finished products to the world market. That was the idea behind the creation of agro-industries which would contribute to a favourable balance of trade as well as the satisfaction of domestic demand for certain consumer goods. It would promote greater vertical integration of the Ivorian economy and create employment opportunities, located between plantations and ports, and reduce the rate of migration to Abidjan.

Finally, the expansion and diversification of cash crops was a continuation of past objectives in line with exporting unprocessed agricultural products quite profitably.

Throughout the three development plan periods, agricultural exports remained the main source of foreign exchange and the motor of the country's rapid economic growth. Priorities had moved between import-substitution and agro-industrialisation to solve debt dependence and unemployment problems. The repatriation of foreign capital, technology and capital goods imports consume foreign exchange. Agro-exports replenish foreign exchange reserves to the degree that they are competitive on the world market. Rapid economic growth appeared to be the result of the phenomenal expansion

of primary export and more recently the agro-industrial exports. The relative political calm and infrequent instances of repression found their explanation within the historical legacy specific to the Ivory Coast's independence movement (Alschuler, 1998, P 182)

A) Growth and structure of the Ivorian economy

1) Achievements

In the 1960s, growth was rather high (reaching 13% in 1968), but became significantly lower from the late 1970s until the second half of the 1990s. High commodity prices, especially cocoa, led to expansionary economic policies throughout the 1960s and the 1970s. Identification and analysis of the factors responsible for the Cote d'Ivoire's outstanding performance is to find out what went right instead of the contrary. However, over the period 1960 and 1970, the growth has been called 'miracle'. Rapid economic growth has ranked high in Ivorian development strategy since its independence. The government has consistently argued that, at the country's low level of income, rapid growth itself is the key to overcoming economic and social problems. The authorities were well aware of the possible trade off between growth and distribution of income but their decision to emphasize the former without neglecting the latter, in their early development strategy seems justified by the circumstances (Bastiaan, 1978, P 4).

Again, Cote d'Ivoire did not suffer any disasters that threatened other developing countries, combined with a good public investment policy, political stability and the creation of an image of a modern growth- oriented economy. Moreover, the government focused its development outward in the sense that it was recognized that the export sector would be the key to economic growth and that foreign production factors (capital, labour, and know-how) would be essential in developing the country's economic potential.

In fact, high prices resulted in a three-fold increase in export earnings from coffee and cocoa between 1972 and 1977, which accounted for 90 percent of total export earnings at the time. However, during this period, the cost of living increased dramatically (by more than 30%), domestic credit increased four-fold while net foreign assets of the banking system remained virtually unchanged. In 1977, the price of coffee fell drastically and the government believed that fall was transitory and did not alter their expansionary investment programme. That was not the case and the institutions of

Bretton Woods were called in for structural adjustment in 1980. The adjustment programme was implemented successfully and growth recovered. However, the period of recovery was brief as the CFA appreciated sharply in the mid 1980s, diminishing Cote d'Ivoire's competitiveness. This, combined with once again deteriorating commodity prices, led to a fall in real export earnings in CFA terms of 64 percent between 1985 and 1993, while per capita GDP fell between 4 and 5 percent annually. Aware of the economic vulnerability of too much dependence on the three main export commodities, the government rapidly diversified agriculture by introducing and expanding other produce as palm oil, coconut, pineapple, rice, rubber, cotton and later sugarcane and other sectors. However, the government was responsible for the Ivorian's impressive economic performance due to the fact that it created a strong atmosphere for investment, so that foreign private investors were safe to provide capital. Also, they were excited by the political stability of the country and the government's general policy. Increasingly, the public sector itself was able to finance a major share of its investment programmes that equalled about 60 percent of total investment in the early 1970s (Bastiaan, 1978, P 5).

Cote d'Ivoire performed very well in savings, which generated about 22 percent of the GDP in 1970. According to same author, the savings record and the outstanding export performance are the major reasons that the foreign debt service has been kept within manageable limits. Balance of payments equilibrium has been maintained and reserves have been sufficiently large to cope with unexpected developments.

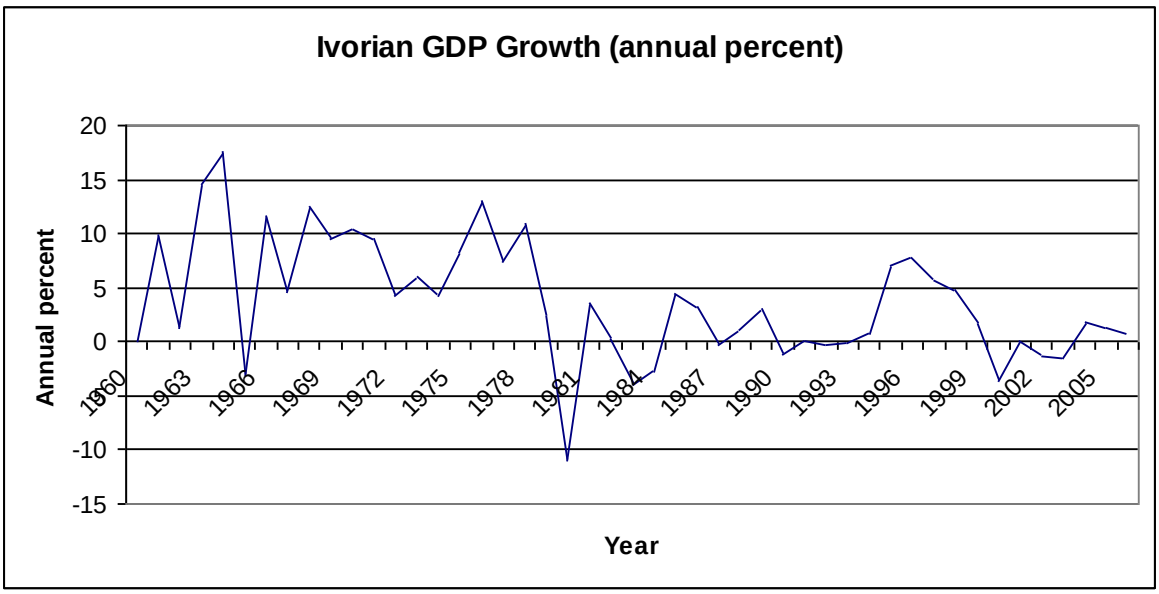
Also, the government did not invest heavily in purchasing weapons, avoiding large military expenditures and costly prestige projects. Moreover, the government was so much determined to maintain growth and at the same time correct the imbalances that it kept a sizeable investments programme with the public sector's proportion of total investments rising from 40 to 60 percent in 1960-70. The foreign direct investment (FDI) shrunk in 1985 ($29.20 millions) to fully recover in 1995 ($211.5 millions) and finally reaches $265.70 millions 2005. However, FDI plays a key role in the Ivorian economy accounting for between 40 and 45 percent of the total capital in Ivorian firms. France is overwhelmingly the most important foreign investor in recent years, accounted for about one-quarter of the total capital in Ivorian enterprises and between 55 and 60 percent of the total stock of foreign investment capital (World Bank, 2008)

The table below summarizes the general macroeconomic performance of the country.

Table 3.1.A.1: Macroeconomic Trends

Sources: World Development Indicators Database, April 2007; World Economic Outlook Databases, April 1999, September 2000, October 2007 and International Financial Statistics 1990, 1994,2000, 2007 and February 2008

2) GDP Growth



Sources: World Development Indicators Database, April 2007; World Economic Outlook Databases, April 1999, September 2000, October 2007 and International Financial Statistics 1990, 1994,2000, 2007 and February 2008

The real GDP grew rapidly and reached 9.22 percent in 1975 due to increased commodity prices and political stability leading to strong public and private investment. It shrunk to -1.10 percent with the deterioration in the terms of trade and strong French Franc vis-à-vis the US Dollar, coupled with high population growth resulted in a fall in living standard. The economy began a comeback in 1994 (with 7.10 percent of GDP) due to the devaluation and improved price for cocoa, coffee, pineapple and rubber, limited trade and banking liberalisation, offshore oil and gas discovery and generous external financing and debts rescheduling by multinational lender and France.

Chelariu et al. (2002, P 458) reveal that the level of GDP per capita is one of the highest in Sub-Saharan Africa. With the political crisis, GDP growth decreased to -4.60 percent before reaching 1.80 percent in 2005 and 0.90 percent in 2006. That growth reflects the ongoing political normalisation process, a continued modest increased in private sector

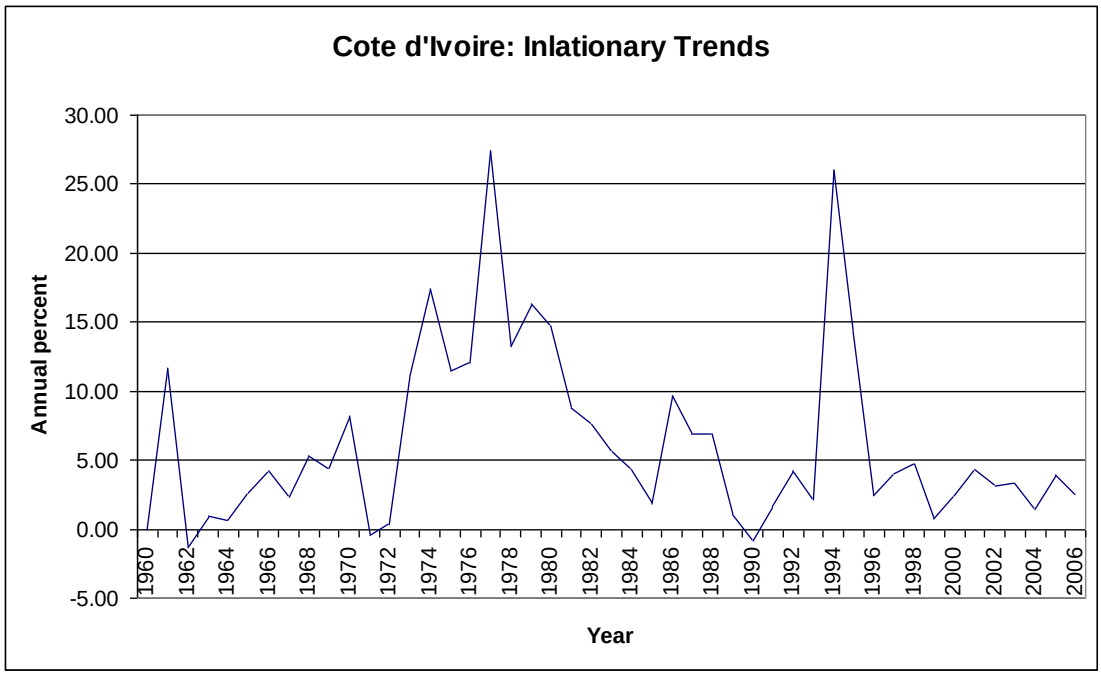
confidence and investment, rehabilitation of public infrastructures and redeployment of government services in the north which will improve utilization of existing capacity, especially in the industry and services sectors.

The little drop in 2006 is due to the weather conditions affected cotton and cocoa productions and also the decline of volume of oil production.

3) Inflation

Cote d'Ivoire's currency was pegged to the French franc and now to the Euro and its monetary policy is conducted by the BCEAO, leaving budgetary policy as the government's only instrument of macroeconomic stability. Thereby, inflation is still under control, so according to Honohan (1992) in Savvides (1008, P 810), the inflation in the core (France) determines the long run inflation trend for individual members of the CFA zone. Between 1974 and 1980, the average inflation rate was about 16 percent, compared with 5.7 percent from 1965 and 1974. The fluctuations of the inflation rates were the result of price increases in imports from the industrial countries, but the real effective exchange rate fell considerably after the mid- 1970s, which meant that domestic inflation was higher than inflation abroad. The consequence of this variability is the fact that the purchasing power of wage earners in the modern sector declined by 20 percent between 1974 -1980.

Graph 3.1.A.3: Inflation



Source: IMF, International Financial Statistics 1990, 1994, 2000, 2007; World Economic Outlook April 1999 and October 2007

Prices have been historically low in Cote d'Ivoire, means that inflation was less than 5 percent before the devaluation and reached 26 percent between 1994 and 1995 to finally drop to 0.7 percent in 1999. Due to the political turmoil started in 1999, prices increased to 3.3 percent and there were estimated to 3.1 percent in 2002. Such low inflation rate is an exception in sub-Saharan Africa. This accomplishment is due to the country's membership in the CFA zone and its currency linked to the Euro, the European single currency

After reaching 32.2 percent in 1994, inflation fell back to 14.1 percent in 1995 and then reached 2.5 percent in 2000. Again, inflation, which was less than 1 percent in 1999 because of the falling food prices, remained under control despite fuel price rises. Inflation was 3.9 percent in 2005, resulted in an increase of food supplies. Despite recent food shortages in Sahel countries led to price pressures in 2001 and an economic slowdown, inflation reached 3.9 percent that year and fell to 2.5 percent in 2006. With the decrease of the national savings behind investment and concessionary capital from abroad increasing too slowly, the public sector has contracted growing amounts of foreign capital on progressively harder terms. Cote d'Ivoire needed foreign production factors to support its future development but the amounts could not continue to grow disproportionately thus, there was a need for policy change.

B) Devaluation of the CFA

In 1994, the CFA zone was forced to undergo devaluation, advocated by the Bretton Woods institutions due to profound economic and financial disequilibria born in the 1980s. Different adjustments attempted have been made in order to maintain the CFA-FF parity with negative results. Thus, the member states decided to devalue their currency by 50 percent in January 1994 and to implement broad restrictive incomes and credit policies and a range of structural and institutional reforms. In sum, the devaluation had contributed to a resumption of growth in real per capita incomes in the zone at a rate of 0.8 percent from 1994 to 1996 after annual declines of 2.6 percent during 1986-93.

The objective of the devaluation:

- Re-establishing external competitiveness of the zone economy and strengthening the balance of trade;
- Reducing budget deficits, which depend on external trade;
- Intensifying growth.

From the devaluation, the structural adjustments set by the IMF have been implemented successfully so that to achieve a revenue structure that is less vulnerable to external shocks and allow a reduction of the tax burden on the modern sectors of the economy as well as on exports, governments need to implement in a timely fashion measures to broaden the tax base and reduce the scope of exemptions.

Also, the public sector has been strengthened particularly the tax and treasury administration which should facilitate better management of the limited resources available to achieve social spending and investment capital. Moreover, the private sector has been prioritised to become the engine of economic recovery and growth: simplification of administrative procedures, acceleration of privatisation, liberalization of prices controls, labour markets and external and domestic commercial activities and restructuring the financial sector. Also, after a sharp initial increase following the devaluation, the inflation rate was brought down to single-digit level by the end of 1996. Fiscal imbalances have been reduced with the primary balance shifting to a modest surplus after sizable deficits during 1986-93. The overall balance of payments deficits have been contained while the terms of trade improved modestly. The real effective exchange rates depreciated by 26 percent between December 1993 and May 1997. The competitiveness gains have been substantially larger in terms of relative unit labour costs (Hadjimichael and Galy, 1997, P 10).

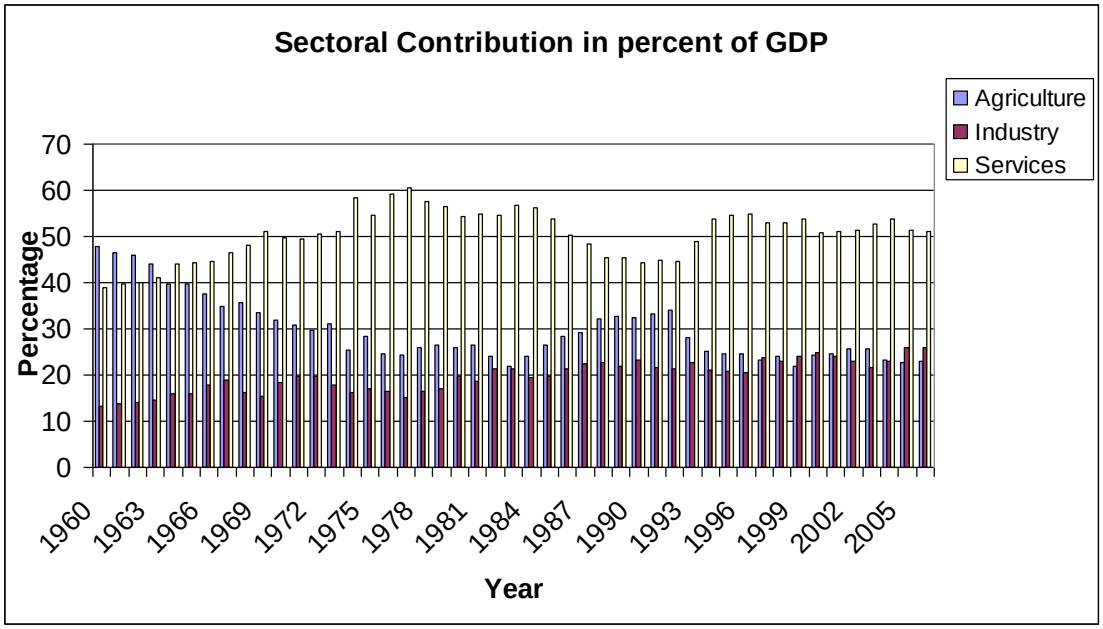
In the meantime, the role of the regional central banks had changed, shifting from direct instruments of monetary control to indirect market based instruments and establishing inter-bank money market and new financial instruments issued through auctions. Also, the banking systems had been restored through the restructuring, privatisation and liquidation of insolvent and illiquid commercial banks with the support of IMF, World Bank, Paris Club and other development partners. Despite some restructuring in the industry sector after the devaluation, the country is still a mainly agricultural one with food and export crops accounting for more than a quarter of GDP while food processing amounted to 25 percent of the value-added in industry. Thereby, the importance of

exports makes Cote d'Ivoire very dependent on external factors such as the weather, demand and the world prices.

C) Performance by sector

Cote d'Ivoire has developed infrastructure and a relatively well-diversified economy. However, the economy is based on the agriculture sector, which was important as it contributed from 32 percent to GDP in 1970 to 20 percent in 2006. It has a strong manufacturing base focused much more on an agro-industry (18 percent of GDP in 1970 and 23 percent in 2006). The service sector contributed 40 percent to GDP in 1970 and 55 percent in 2006 (Graph 3.1.C)

Graph 3.1.C: Sectoral Contribution in percent of GDP



Source: World Bank, World Development Indicator, September 1999, April 2007 and IMF, Statistical Appendix June 2004.

Trends are examined according to the different sectors such as agriculture, industry and services.

1- Agriculture

The agriculture sector is the second most important sector in the Ivorian economy and has been so for the last four decades. Although, its share had decreased to as low as 21% in the beginning of 1980s, it has been on an upward trend over the last years before

accounting for 20 percent of GDP in 2006. Unfortunately, the sector is still in turmoil with internal problems like the lack of credible structures regarding collateral making it difficult for operators to acquire financial loans and develop their property. Also, the sector suffered political turbulences and shrunk by approximately 3 percent in 2002 mainly as a result of poor performance of the cocoa and coffee sector.

Cote d'Ivoire has a variety of agricultural produce such as cocoa, coffee, bananas, palm kernels, corn, rice, sweet potatoes, sugar, cotton, rubber and timber. The agriculture is quite diversified and accounts for a third of GDP and an estimated two-third of the population earns their livelihood in the sector. The country accounts for large share of the world market in several of its products. It produces approximately 42 percent of the global output of cocoa and is therefore the largest producer worldwide and is the world's fourth biggest producer of coffee to date. Cote d'Ivoire recently lost its position as third largest exporter of coffee, producing 27.7 percent less at the end of September 2002 compared to the same period in 2001. This was due to the low market price and quality aspects. Regarding the market price of coffee, the BCC (Bourse du café et cacao) offered low prices to farmer. Consequently, producers had little incentive to carry on cultivating beans and turned to other cash crops. The quality of cocoa and coffee had been left out.

The rebellion led to logistical problems in case of the cocoa harvest and adversely affected this already punished sector. The country is still the world's leading producer (exporter) of palm oil. The country is actually able to increase production, owing to the increase in market prices. Production of pineapples and bananas also increased. However, marketing and export of pineapples and bananas on international markets still remain difficult due to reduction of quotas granted by the European Union and overproduction of tropical fruits, issues which led to a strike of the producers at the beginning 2002.

2- Industry

The contribution of industry to GDP slightly fluctuated over some years. While it increased from 19.7 % of GDP in 1980 to 23.2% in 1990, it lost this share in the early 1990s, decreasing by 4.8% to 18.5% in 1994, which was due to lack in competitiveness. This was in particular visible as its share increased to up to 23% in 2006 (Graph 3.1.C).

Industrial activity however, once again suffered following the 1999 coup but it rebounded in 2001. From 2002, industrial activity continued its upward trend due to the agro-processing industry, chemicals, energy and automobiles.

a) Agro-industry

Cocoa is the leading activity in the agro-industry, yet only a small proportion of the total crop is ground locally. While increasing the proportion of domestically processed cocoa is desirable in order to reduce Cote d'Ivoire's vulnerability to world market prices of unprocessed cocoa beans, the government's policy in this regard does not seem to be clear. The government increased the tax rates for the latter substantially more than for the former suggested that the cocoa processing industry is not a priority; as such a move clearly creates disincentives to process.

b) Oil and gas

Cote d'Ivoire has the potential to be one of the region's leading energy suppliers. It boasts large reserves of natural gas and oil and has a well-established energy sector. In fact, the oil industry is one of the key elements of the Ivorian economy as it is becoming the main driving engine. While estimates vary, reserves of oil in Cote d'Ivoire are set to be high. The country boasts a fairly well developed petro-industry with many international companies operating and actually imports crude oil, which is domestically processed and finally re-exported. In fact, the country is self sufficient in the production of refined petroleum products as well as one of the major suppliers to West Africa. Also, the country is becoming a regional gas exporter.

c) Electricity

Cote d'Ivoire is self sufficient in the production of electricity and is actually an electricity exporter, exporting largely to Ghana. In fact, the state electricity company was among the firsts to be privatised.

3- Services

The service sector is the largest in Cote d'Ivoire, accounting for 40 percent of GDP in 1970. The 1999 coup took its toll: the service sector shrank to 43 percent between 2000 and 2001, the largest fall in Cote d'Ivoire's history since the 1994 devaluation and a clear indication of the detrimental effects of political uncertainty.

Furthermore, over the last few years, the country made great improvements in its telecommunications sector. The sector grew through transformation and liberalisation and recently boasted one of the most reliable networks in Sub Saharan Africa after South Africa. Cote d'Ivoire is the regional leader in telecommunications in Africa. With the liberalisation of the sector in order to increase competition, three mobile operators licensed in 1996 and since then, ownership has hugely increased. After 6 years, more than 700,000 Ivorians have subscribed to a mobile phone, more than double the total number of fixed lines in 2002 and reached 1,531,846 in 2004 (UN Statistical Yearbook 2006).

Before debating on the status of the West Africa Monetary Union regarding the emergence of the European Union, let's analysed the opportunities gained from a monetary union in general.

3.2 Monetary union

A- Opportunities of monetary union

The opportunities resulted from a monetary union are related to the gains of arrangement which have been analysed in the chapter 8. So, the opportunities are following:

a) Foreign exchange management

The West Africa Monetary Union involves the pooling of foreign exchange reserves of member states. However, these pooled reserves are managed by the common central bank with the collaboration of the French treasury officials or the central monetary authorities. The fact of pooling is giving the central bank a wide range of options to diversify and rationalise its investment portfolio in order to maximise the earnings from the investments of reserves.

There are some other elements, which are important in the management of pooled reserves: the process of common decision-making and the operational characteristics. The assertion had been confirmed by Itsede, 2002, p48: < The adjustment mechanism through which the pooled would function, regulation of access to resources, replenishment and constitution, equalization of adjustment burdens are critical elements that should not be over looked. Specifically, it is important to agree on what should be pooled at the outset>.

b) Strengthening the financial system

Within a monetary union, there are lot of opportunities and threats to the financial institutions. The different financial systems have been developed and sophisticated with the open up of great possibilities in the market. So, the net gains or losses to financial services providers depend on the competitiveness, the pro-action and adaptability of their financial services. The structure of the financial system has to change and the capital markets and the insurance have to be adapted. Again, mergers and acquisitions are common features of the financial system as financial reposition for the union market.

c) Payments systems

A single currency requires a single integrated money market, which in turn requires an efficient system of payment. The international quality standard for payment systems is Real Time Gross Settlement (RTGS)

d) Banking supervision

The important issue, which could be raised with the introduction of a single currency is whether banking supervision should be conducted at the community level or continue to be conducted at the national level but subject to the directives of the common central bank or a supranational supervisory authority. In the European Union, the arguments for centralized supervisory framework were not very strong while in the WAEMU; the regional central bank is in charge of the supervision. The German central bank believes that supervision should not be the responsibility of the common central bank as some occasional bank failures were inevitable or even desirable. Common legal and regulatory frameworks for prudential regulation of the banking system have to be prioritised.

e) The real sector

A monetary union is affecting the national production possibility, the techniques of output and the geographical distribution. The markets unification and dynamics could help some industries to relocate to “action areas” to reap the benefit of the common market. It is the case of Cote d’Ivoire in the West African Economic and Monetary Union, which produces 40 percent of the output of the zone, encouraging the producers to take advantage of the economies of scale. One said that integration could see the

proliferation of a great number of large-scale cross-border industries by both nationals and foreign investors. Industries could become much more competitive in their pricing policies and much more prone to frequent restructuring in their efforts to cope with large and varied demands. For producers and manufacturers, the large market and its protective walls are a safe place to conduct product research, development, packaging and marketing which are necessary to compete effectively in the global market.

f) Factor mobility

The cause of monetary integration would be better served by the movement of factors of production within the zone (Mundell, 1961). Such mobility would equilibrate demand and supply of factors of production by shifting resources from surplus areas to deficit areas in the monetary zone. So, the wage rate may stabilize and thus reducing the unemployment.

g) Coordination of macroeconomic policy

The first step of economic integration is the establishment of a credible mechanism for macroeconomic policy coordination due to the fact that the member states may have different level of economic development and macro policy divergence. The different countries have different level of inflation, exchange rate, fiscal deficit, public debts and external reserves. Thereby, integrating countries have to set of criteria by which the convergence of the different economies would be measured but politicians have to push ahead those reforms, which might be unpopular in their country.

B- The link between WEAMU and EMU

The European Union Council of Ministers has made an official decision that France as member of the EMU can maintain its monetary relationship with the CFA states but any further modifications have to be approved by France and the EU Council. However, this relationship is a budgetary arrangement between Francs zone and the French Treasury, rather than a monetary arrangement with the Bank of France which holds the operations accounts of the two central banks: BCEAO and BEAC. It has been already mentioned that the French Treasury officials who underwrite any overdrafts for a bilateral balance of payment assistance manage the operations accounts.

Again, in the spectrum of EMU, there is a need of whether the union is desirable as the CFA zone does have the potential to provide a net economic benefit through increased

policy credibility. It has been argued that the policy credibility has to pass through significant reforms of institutional arrangements governing the monetary policy decision-making. According to Fouda & Stasavage (2000, P 223), the traditional way to assess costs and benefits of participation in a monetary union is with reference to the literature on optimum currency areas. Optimum currency area theory emphasises that when markets for labour, goods and capital are highly integrated between countries, the reduction of transactions costs which results from establishing a monetary union can outweigh the costs in terms of loss of the nominal exchange rate as a policy instrument for adjusting to country- specific shocks. In the case of the Francs zone, there is limited integration between member states in terms of markets for labour, goods and capital. Moreover, the country-specific shocks are largely incompatible and making loss of the nominal exchange rate. In that circumstance, if a government choose the nominal exchange rate as a policy instrument, it has to devalue (or revalue) its currency when warranted by economic considerations, but political instability is increasingly the outcome of devaluation thus it will be interesting for governments to be part of a monetary union even reducing their discretion over macroeconomic policy. So, central banks are in charge of monetary policies in that union. This could inspire investor confidence and bring faster growth in per capita incomes.

Also, inflation rates in Francs zone have tended to converge towards those of France, as the CFA states have avoided the high inflation suffered by many other African countries but they ran higher public sector deficits than others. It has been argued that, in terms of economic growth, UMOA states have considerably out-performed than other African countries during the periods 1973-79 and 1994-96 through the different structural adjustment programmes.

The CEMAC states significantly out-performed more than other African countries between 1973 and 1985 because this union comprised three major oil producers, which are Gabon, Equatorial Guinea and Guinea-Bissau, and also that period was boom oil prices on world markets. After the 1994 devaluation, the UMOA states performed well indeed indicating that CFA zone participation still brings clear benefits in terms of growth. The table below shows the real GDP growth.

Table 3.1.B: Real GDP following the 1994 devaluation (in %):

WAEMU

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Benin	4.4	4.6	5.6	5.7	4.6	4.7	4.9	6.2	4.5	3.9	3.1	2.9	3.7
Burkina Faso	1.2	4.0	6.0	5.5	6.4	6.3	2.2	6.8	4.6	8.0	4.6	7.1	5.5
Côte d'Ivoire	1.8	7.1	6.9	6.2	5.8	1.6	-2.3	0.1	-1.6	-1.7	1.5	1.7	0.7
Guinea–Bissau(*)	na	na	na	6.3	-28.2	7.6	7.5	0.2	-7.2	0.6	3.2	3.8	2.1
Mali	2.3	6.6	4.3	6.7	5.0	5.7	-3.3	11.9	4.3	7.6	2.3	6.1	5.3
Niger	4.0	2.6	3.4	3.4	6.7	-0.6	-0.2	5.8	5.8	3.8	-0.8	7.4	5.8
Senegal	2.9	4.8	5.1	5.0	5.7	5.1	5.6	5.6	1.2	6.7	5.8	5.7	2.5
Togo	16.2	6.8	9.7	4.3	-2.2	3.0	-0.8	0.6	4.1	2.0	2.5	1.3	3.9

Source: Central Bank of West African States

(*) In 2009, Guinea-Bissau published a new set of national statistics according to the Western African Economic Union accounting criteria (SNA 93) with the year 2005 as a base year, whereas the national statistics given the past, achieved on the basis of SNA 86, had the year 1986 as a base year.

CEMAC

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cameroon	0.4	4.2	5.1	4.9	4.7	4.3	5.2	4.7	4.0	4.2	3.7	2.3	3.2
Central African Republic	4.9	6.4	-3.1	4.3	5.3	2.7	0.7	0.5	0.3	-4.6	3.5	3.0	4.3
Congo	-4.8	2.6	6.4	-2.4	3.7	-3.2	7.6	3.8	4.6	0.7	3.7	7.1	7.0
Gabon	3.7	5.0	3.6	5.5	3.5	-11.3	na	2.0	-0.3	2.7	1.4	3.0	1.3
Equatorial Guinea	15.6	16.1	37.4	93.8	17.7	23.2	13.1	68.3	20.2	14.4	32.6	8.9	5.3
Chad	5.9	0.9	3.1	4.4	4.6	0.2	-0.7	10.6	8.5	14.3	33.7	8.6	0.8

Source: Bank of Central African States

C- Performance of the zone

Each member states have given up the sovereign right to note issue and parity adjustment in favour of stability and convertibility. However, the monetary policy sovereignty and exchange rate convertibility has been associated with the power of the union.

For a long time, the obvious stability and well being of the member states was contrasted with the "learning by doing" pratfalls of the non-francophone African countries and a positive association developed between UMOA-type arrangements and development (Medhora, 2000, P 3).

Convertibility of CFA Franc

The guaranteed convertibility of the CFA francs is probably the most interesting feature of the CFA francs system. This convertibility in the Franc zone, however, was conceived differently from the Bretton Woods accords, which is ensured by the market mechanism of supply and demand. But, in the Franc zone, convertibility was set up via the operations account with the French Treasury. (Mbet & Niamkey, 1994, P 1150) CFA francs are not bought and sold in the market place but are only converted into French francs. So, the convertibility of CFA francs is set up by administrative decisions and therefore could not be sustained in the event of an economic and financial crisis at the centre. That is why the operations account actually constitutes the foundation of the Franc zone. It is so important that it is supported by two specific pieces of legislation, the agreement of March 1973 between France and the BEAC countries and the convention of December 1973 between France and UMOA countries. Each central bank records in its credits or liabilities the receipts of foreign currencies that it acquires outside the Franc zone. In its assets, each central bank records the expenditures outside the zone. The net balance may be positive or negative. An evaluation of the Franc zone monetary co-operation system should include the net balance of the operations account and the costs associated with maintaining such account.

Again, the union (UMOA) manages its foreign reserves collectively and controls the credit expansion, which influences the direction and importance of the monetary policy every individual country may follow.

According to Hidjimichael and Galy (1997, P 8), the economic performance of the CFA franc countries compared favourably with that of other sub-Saharan African countries, being characterized by strong real GDP growth and lower inflation during the period from the early 1950s to the mid-1980s. Unfortunately, from 1986 to 1993, the cumulative deterioration in the terms of trade of around 40 percent, combined sometimes with deflationary fiscal policy, the growth performance of the Franc zone had weakened considerably.

The decrease of the terms of trade had led to a substantial depreciation of the equilibrium real effective exchange rate of the union.

Furthermore, these two authors argued that in the absence of nominal exchange rate flexibility and in the context of a sizable firming of the French franc against the US dollar following the Plaza Accord among the G-5 countries, the CFA franc appreciated considerably in nominal effective terms. The internal adjustment efforts pursued by most member states gave rise to a tiny depreciation of the real effective exchange of the CFA; that was not enough to offset the impact of the terms of trade loss therefore giving a rise to competitiveness problems.

3.3 Benefits and Costs of a monetary union

Cote d'Ivoire belongs to the West African Economic and Monetary Union (WAEMU), which was up to the 1980's one of the few African success stories. At independence, it was a low-income country, but by the end of the 1970's, Cote d'Ivoire was one of the wealthiest countries in Africa, exporting manufactured goods with annual growth of 8% in the 1960's and 6.7% in the 1970's. Thus, part of the Franc zone, this country was obliged to deposit 65% of its gains from foreign transactions into the operations account at the French Treasury. Let us discuss briefly the history of the CFA Franc.

3.3.1 History of CFA zone

The CFA franc zone currently comprises 14 sub-Saharan countries, of which 12 countries had been French colonies. However, the zone is built around two monetary unions: the West African Economic and Monetary Union (WEAMU) which are Benin, Burkina Faso, Cote D'Ivoire, Mali, Senegal, and Togo; and the union of states belonging to the Banque des Etats d' Afrique Centrale (BEAC) which includes Cameroon, Chad, Congo, Gabon, the Central African Republic and since 1986, Equatorial Guinea. (Guillaumont, 1989, P 140) According to authors like Hadjimichael and Galy (1997, P 4), the CFA franc zone is one of the unique experience in the world due to the fact that it is a monetary union with fixed exchange rate, and the anchor currency country, France, guarantees the convertibility of the CFA Franc into French Franc. France participates in the executive boards of the two regional central banks and provides extensive financial and technical assistance to the member countries of the zone. The unique features of the zone find their origin in the political and economic relations

between France and its former African colonies. From the 1930s to the 1940s, France established currencies in each of its colonies that were pegged to the French franc. After the independence of the different colonies in 1960, the responsibility of issuing and overseeing the functioning of the zone was shifted to the two central banks but these banks was dominated by France and in the early 1970's, their control shifted to the countries members.

Each Central Bank (BCEAO and BEAC) issues its own currency but using the same acronym "CFA francs" pegged to the French franc (FF) since the colonial time. The currency had been set up December 26th, 1945. That was the day France signed up to the first Bretton Woods agreement prior its integration into the IMF. Then, the currencies of the French colonies in Africa were consolidated into "Le franc des Colonies Francaises" means 'Franc of French Colonies'. Initially, the currency was issued by the Central Bank for France's overseas territories named Caisse Centrale de la France d' Outre-mer. In 1958, CFA became "Franc de la Communaute Francaise d' Afrique" and lastly "Franc de la Communaute Financiere d' Afrique for West African Monetary Union countries and "Franc de la Cooperation Financiere en Afrique Centrale" for Beac countries. The zone had changed over time with the departure (and subsequent re-entry of Mali) of some former French colonies and the entry in recent years of two sub-Saharan countries that had no colonial relations with France and are not French speaking (Equatorial Guinea in 1985 and Guinea-Bissau in 1997).

Table 3.3.1: CFA Parity

Creation of CFA	26th December 1945	1CFAF = 1.70FF
FF devaluation	17th October 1948	1CFAF = 2.00FF
Institution of new FF	1958	1CFAF = 0.02FF
CFAF devaluation	12th January 1994	1CFAF = 0.01FF

Source: BCEAO

The parity has been fixed at 1FF for 50CFAF since 1958 (see table above) and has never been adjusted over the years until January 1994 when the currency has been devalued for the first time, advocated by the International Monetary Funds and the

World Bank. The CFA zone system involves two regional unions. Four principles govern the functioning of this zone:

a) The fixed parity between the French francs and the CFA francs since 1948 by unanimous agreement between member countries and France. This parity is adjustable if required by economic reasons after consultation with the French government and unanimous decision of all member countries.

b) The full convertibility of CFA francs into French francs, guaranteed through the special operations account opened at the French Treasury but not at the Banque de France.

c) Free transferability without limit within member countries and between these countries and France.

d) Pooled reserves system under which the Franc zone uses a common foreign exchange policy against the rest of the world.

e) Free capital mobility between each region and France but this had been restricted since 1993 at only transfers.

Particular attention will be focused on the West African Central bank: BCEAO

1) The central bank: BCEAO

The bank is in charge of the monetary policy of eight countries and of issuance of notes and coins by adjusting the global liquidity of the economy related to the economic trends in order to stabilise the inflation and promoting economic growth. Other functions are:

- Centralisation of foreign currency reserves of the union
- Management of monetary policies of member states
- Bookkeeping the treasury accounts of members
- Definition of banking laws and rules applicable to banks and financial institutions.
- Powers to exert off-site and on-site control
- Determination of effective equity

- Definition of the modalities for the implementation of the decisions taken by the Council of Ministers in the framework of its competences
- Accounting provisions applicable to banks and financial institutions
- Determination of credit ceilings for banks staff and managers
- Organisation of the money market
- Participation in the capital of establishment or organisations whose activities are of general interest to one or several states of the Union.
- Execution of transfers on behalf of credit establishments

Medhora (2000, P 5) argued that the central bank has an onerous responsibility for which they are only partially equipped. Independent central banks are deemed to be credible and in principle, supranational central banks should have a high degree of independence at least from individual member governments. In fact, the BCEAO has an enviable degree of "de jure" independence, lies above the average for OECD central banks largely because of their freedom from pressure from any single fiscal authority and the statutory limits on government borrowing. According to Fouda and Stasavage (2000) and Guillaume and Stasavage (2000), that “de jure” independence has not translated into de "facto" independence. The failure has come from: 1. an inability to prevent or control excess credit creation in some countries; 2. an inability to prevent a financial sector crisis in some countries; 3. a bias towards the large countries as revealed by the pattern of seigniorage flows; and 4. an inability to prevent over-valuation of the CFA Franc.

a) Credit creation

Within the union, there has been excessive credit creation so a distinction has to be made between the ability to control credit and the willingness to control it effectively due to its freedom from any political influence and the mandate to defend the historical CFAF-FF parity. One said that the central bank is less equipped to estimate credit demand and supply in each member country annually. BCEAO does not receive full information in the terms of the completeness as well as the speed of reporting. Also, the different governments have found a way round the 20 percent of credit limit advocated by the central bank so we believe the 20 percent limit is seen as a right not a ceiling. Finally, the BCEAO want to show off compared to Anglophone countries by accelerate the banking habit and the development of financial institutions. The bank was obliged to trade-off rectitude in matters to do with credit creation.

If the bank cannot appraise the credit development and the French treasury stands to increase the operation account in demand then its role is quite circumscribed by institutional features. So, it has to have a strong mandate to be that supranational central bank.

b) Dealing with financial sector crisis

The 1980s financial crisis primarily, in Cote d'Ivoire, Senegal, Benin, Gabon and Cameroon drained savings, scarce management resources and set back financial development in the region. It was due to the combination of a weak external and domestic economic environment with poor lending practice and inadequate supervision by the authorities. Some privileged sectors received funds at the below-market discount rate called "taux d' escompte preferential" or TEP, led to abuse the system. The BCEAO having passively refinanced credit to governments, the agriculture sector and other designated entities for years, found itself dealing with the aftermath of a crisis among lending institutions.

c) Seigniorage

Seigniorage is defined as the financial benefits of having the "license" to print money. The resources gained from issuing high-powered money (monetary seigniorage) will be used to cover the bank operating costs, retained or return to the public via dividends to the national treasury or subsidized lending to designated sectors. Distributing seigniorage via subsidized lending means that the larger members or at least those members with large sectors entitled to the preferred credit benefit but it had been removed.

d) The currency: CFAF

The monetary policy conducted by the central bank is to maintain the CFA Franc at a competitive rate under a host of exigencies. The inflation rate was and still admirable despite the fiscal adjustment, some countries have to make to become competitive, the ability of the central bank to conduct a regional monetary policy and the degree to which an area that is not an optimum currency area should be governed.

2) Money supply and reserves

The section will discuss the relationship between the operations of the Central bank and the whole monetary system.

Cote d'Ivoire does not control the total money supply, as the monetary policy is set up by the regional Central Bank. The central bank issues the common currency, holds the external reserves on the behalf of the entire area in the operations account and provides credit facilities to banks, other financial institutions and governments of its member states. Thereby, the fixed nominal exchange rate against the French franc, absence of controls on capital movements and limited scope for open market operations unable the central bank to control all the counterparts of the money supply.

Lane (1989, P 45) argued that with a fixed exchange rate, the public might hold excess real money balances as a result of an increase in domestic credit (supply shocks) or a money income shock (demand). The resultant excess real money balances increase expenditures, which in turn, result in increased imports. Without offsetting capital movements, the increased current account deficit must therefore be financed by a lowering of reserves. Again, an increase in domestic money supply is offset by reductions in reserves leaving the whole money supply unchanged. The overall decline in real deposits held in the banks might suggest that the CFA was not officially desirable despite the decline concentrated in demand and not time deposits leading to the reduction in the creation of credit if the monetary authorities did not lend to banks. During the 1980s, the lending by the monetary authorities had been very important than the time and demand deposits.

In fact, Cote d'Ivoire is faced with the problem of instruments of monetary policy to influence the money supply, especially limited scope for open market operations by sale and purchase of government securities and no independent interest rate or exchange rate policy. However, the expansionary monetary effect of export revenues might be affected by the central bank open market sale of government bonds. That operation could raise the interest rates and attract more offsetting capital inflows, unless the exchange rate is changed. Moreover, the current account deficits have been financed externally when Cote d'Ivoire was a credit-worthy country and did not directly influence the money supply. The mechanism by which changes in commodities exports

prices and volumes affect monetary variables, was the external part of the current account deficit, causing a reduction in reserves and a contraction in money supply.

Moreover, the international economic recession has lead most of the WAEMU countries to draw upon pooled reserves simultaneously, which made them vulnerable and significant overdrawn at the operations account. In 1980, Cote d'Ivoire has been the most substantial borrower. However, the government revenues in most sub-Saharan countries rely heavily on duties on both exports and imports and therefore highly depend on commodity prices. So, if the increase in revenues falls on trade duties, this may reinforce the incentive to mismanage imports and exports.

According to Georgioni and Holden (2001, P 5), the increased domestic credit channelled to the government would either affect the quantity of credit offered to the private sector and/or affect the amount of domestic credit. The latter case would lead to reduced foreign reserves if demand for money remains the same and in a situation where the exchange rate is fixed, in a deterioration of the current account. However, it is likely that an increased capital flight might actually reduce the demand for both demand and time deposits as well as cash held outside the banks. In other words, money demand would be reduced as well. Increased credit to the government could reduce the foreign reserves and private credit even further unless lending to the banks by the monetary authorities is increased. Thereby, the monetary authorities cannot pump liquidity indefinitely into the banking system and the banks are not interested in borrowing at higher interest rates. Any increase in the liquidity within the fixed exchange rate regime (or rather exogenously determined nominal exchange rate like in the CFA zone) is bound to trickle abroad in terms of increased current account deficits and reduced foreign reserves, reinforcing the vicious circle of capital flight.

Moreover, the capital flight is complicating the setting up of monetary policy because it is reducing the amount of money in circulation outside the banks and reducing base money and deposits (demand and time therefore reducing the reserves of banks held with the central bank and domestic credits. It is very important the way a government finances its expenditure by raising taxes, borrowing from external or domestic sources or borrowing from the central bank according to Georgioni and Holden (2000). In many countries especially the developing and transition economies, there is an additional unofficial channel, which is building up arrears in payments to domestic suppliers or

wages to employees. That was the situation in Cote d'Ivoire and in most of the WAEMU countries. Tax revenues were not enough to cover the expenditures and the limit imposed by the central bank on borrowing, the government borrowed from abroad and built up arrears.

Bhatia (1985) and Stasavage (1997) accurately described the events and argued that the CFA zone had basically failed to deliver its fiscal responsibility expected and associated with the participation in a monetary union and/or external peg. Also, Berthelemy, Bourguignon (1996) and Demery (1994) highlighted the heavy involvement and interference of the government in the economy. Ironically, the large increase in the prices of the commodities Cote d'Ivoire exported in the late 1970s induced the government to spend in a way that today appears to have been reckless, leading to increased debts and arrears once the boom in commodities was over. Since the devaluation in 1994, Ivorian exports received a boost due to high commodity prices while imports decreased. Consequently, foreign reserves received a significant boost. The high commodity prices appear to be sufficient to stop the accumulation of new arrears while slightly reversing the capital flight.

3) Exchange rate policy

Cote d'Ivoire does not control its exchange rate policy as it sets up by the regional central bank. The country can not use that monetary tool to address any economic issues without taking into account the interests of other member states for example its poor performance in the 1980s. Anyanwu (2003, P 132-133) reported that the zone's economic performance began to deteriorate from the mid-1980s principally for two reasons: the appreciation of French Franc and a series of primary-commodity price shocks. Thus, CFA membership and by implication, the high level of exchange rate, were partly to blame for the poor economic performance of the zone. Due to the overvaluation of CFA Franc and mounting structural problems such as rigidly high wages, the economy started to collapse. The zone experienced no economic growth between 1980 and 1994, a period when other sub-Saharan Africa countries were growing at 2.5 percent per annum. Certain authors such as Devarajan and De Melo (1987) and Guillaumont & Guillaumont, (1984) argued that prior to the 1980's, CFA countries maintained and improved their economic situations vis-à-vis non-CFA countries. Others like De Melo, Rodrik and Panagariya (1992, P 23-24) claimed that

CFA countries performed poorly because the Franc Zone rules reduced the need for timely adjustment. The burden of adjustment appeared to have fallen disproportionately on expenditure-reductions in general and on investment-reductions in particularly. It was possible that the very institutional arrangement, which might enable those countries to enjoy faster and more stable growth in the 1980's, was preventing them from adjusting to the internal and external shocks of the 1990's.

Mbet and Niamkey (1994, P 1148) commented that the period of 1980's corresponds to an era when CFA countries, mostly export-led economies were exporting to world markets at a price fair enough to generate sufficient export earnings to finance development projects. Again, during that period, exports were very competitive because the French franc was depreciated vis-à-vis the US dollar.

The period post-1980's showed the decline of almost African countries due to the world recession fuelled by oil price shocks and deterioration of terms of trade. Moreover, the French franc was sharply appreciated against the dollar following a policy of a strong Franc pursued by the French government to keep up with the Deutsche mark within the European monetary system.

Some authors such as Yeats (1990) supported the fact that both CFA and non-CFA countries were seriously affected because they pay more for their imports. However, Medhora (1990) revealed that for CFA countries of WEAMU, nominal exchange rate variability has not measurably hurt the imports of the union so there are no costs on these countries because of their membership. But, notice that for most African countries, adjustment programmes have been implemented to rectify the disequilibrium between domestic supply and demand; such disequilibrium was reflecting on the growing external deficits, slowing down the growth in the per capital income, debt and financial crisis, all of these declining competitiveness.

It has been argued that in the CFA countries, since 1981, the exchange rate policy supposed to change due to the changed external environment but nothing has been done which led to some exchange rates misalignment perceived as the main source of economic downturns.

However, the exchange rate realignment of 1994 prompted significant changes in the economic performance of the member states with output, exports and investment

increased more rapidly than in other sub-Saharan African countries between 1994 and 1998. Due to the increase in commodities prices and favourable rainfall in Sahelian countries, real GDP in the WAEMU zone grew by about five percent on average over the period 1994-1998, compared with 3 percent growth in the rest of Africa. The country members applied stability-oriented macroeconomic policies together with external assistance, contributed to a substantial reduction in financial imbalances.

The main argument is that exchange rates volatility has negative effects on trade and investment. If not fully anticipated, the volatility will reduce the import and export activities and reallocate production towards domestic markets. That is the reason why the European Monetary System has been set up to control exchange rate volatility so avoiding large misalignments among European currencies. It was also, to reduce exchange rate uncertainty to promote intra-EU trade and investments.

Moreover, countries with pegged exchange rate remain the small economies with a dominant trading partner that maintains a stable monetary policy for example the CFA franc pegged to the French franc, and since 1999, to the Euro.

Bernhard Fritz-Krockow and Emilia Magdalena Jurzyk (2004, P 3) argued that: "The choice of an exchange rate arrangement can affect the trade performance of small and open economies. Countries that depend on exports of one or a few commodities might benefit from flexible regime to accommodate exogenous terms of trade shocks.

Conversely, countries that depend on exports to one particular trading partner country might benefit from a fixed exchange rate arrangement of some kind linking its currency to that of the major trading partner, since it would imply an increase in economic efficiency through a reduction in uncertainty and transaction costs."

While a fixed peg seems to have a significant influence on the value of trade, sharing one currency does not appear to lead to more trade. Some Economists thought that monetary union could lead to more trade. It was due to rapid exchange rate changes and the associated growing uncertainty in international foreign currency market combined with the lack of availability of appropriate hedging instruments could have encouraged entrepreneurs in countries sharing one currency to engage in more trade. It might be the consequences of trade liberalisation as countries reduced trade barriers in the 1990s and

also, the existence of a common currency might have become more and more an incentive for trade.

Concerning the linkage between the CFA Franc and the Euro, the French treasury exercises considerable authority over policies in the zone as it has sole responsibility for guaranteeing the convertibility of the common currency into Euros.

Hadjimichael and Galy (1997) argued that the introduction of a single currency, managed by an independent and conservative central bank and the establishment of the EMU would have significant impact on the world economy in general in terms of exchange rate stability, low inflation and nominal interest rates, higher output growth and access to the international capital market.

The developments in the EMU may affect the Franc zone through the output effects, price effects and improved access to world capital markets debated slightly above. As pointed, the EU countries account for about half of the external trade of the CFA states so the potential strengthening of output growth is stimulating the demand for exports by the WAEMU countries. The benefits for those countries are reinforced by the entry into the EU and the EMU of several central and eastern European and probably Mediterranean countries.

Concerning the price effects, the CFA zone is gaining from the exchange rate stability without necessarily adding to the costs of the lack of nominal exchange rate flexibility. The peg is contributing to the stabilisation of the nominal effective exchange rate of CFA states, stimulating the bilateral trade with the EMU countries and encouraging higher inflows of the EU foreign direct investment in the franc zone. If the Euro continues to encounter higher stability, it may replace the Dollar as the currency of denomination of the world commodity prices.

On one hand, changes in the value of the Euro vis-à-vis the dollar and yen will affect the competitiveness of Francs zone because they are so close to the Community by trading more with the EU than others and their historical tie. On the other hand, exchange rate variability will have great impacts on CFA countries with substantial external debt such as Cote d'Ivoire and Cameroon. However, when there is a mismatch between the currency denomination of the debt and the anchor of the exchange rate regime or the currency mix of trade partners, an appreciation of the Euro will benefit countries pegged

to the Euro and export primarily to the Euro-area countries but the service debt denominated in dollars will decrease its domestic currency cost, probably without a fully offsetting decline in export revenue (World Economic Outlook, October 1998, P 152).

The exchange rate stability vis-à-vis the Euro will partially shift countries with strong trade ties to the EU like the Franc zone from the trade-related effects of currency fluctuations. It will leave member countries exposed to changes in interest rates in the euro-zone, which will need adjustments in domestic monetary conditions to maintain the exchange rate link. Changes in interest rates could affect debt servicing costs as well as domestic demand.

Also, the financial transmission of shocks between the euro area and CFA franc countries is modest despite the exchange rate link, given the relative insensitivity of the economic activity in most countries of the zone to interest rate movements in international financial market.

3.3.2 The benefits

The fact that the CFA zone is sharing the same currency represents, by eliminating exchange rate volatility, a more credible and permanent commitment towards integration, cancelling the arrangement extremely costly in political and economic terms. A fixed peg is less severe in term of adoption and abandonment of the regime and would only have an impact on trade if economic agents perceived it as a stable and credible arrangement.

Confidence in a fixed peg and the possible trade-creating effect can be undermined by a real exchange rate misalignment and the threat and relative ease of changing or abandoning the peg. It follows that only credible regimes for example those supported by appropriate macroeconomic policies and not threatened by the prospect of an upcoming devaluation or regime change might have a positive impact on trade (Fritz-Krockow and Jurzyk, 2004, P 4).

Moreover, the longer a fixed exchange rate has been maintained, the higher should be the trade between countries linked by this regime, as the credibility of the regime is strengthened or the capability of the authorities to carry out macroeconomic policies that are in line with the maintenance of the peg. Without such policies, economic agents

will loose confidence in the sustainability of the peg, undermining it through increased trade in a parallel and flexible exchange rate market and ultimately leading to the collapse of the peg. Also, it has been noticed that developing countries which export to the EU, Japan and the US are exposed to real exchange rate misalignments and that the effects of such misalignments exceeded the trade-reducing effects generated by volatility of nominal exchange rates.

However, the franc zone is having easy access to the European Union money market and the prospect of liberalised capital movements between the WAEMU and the EMU. The freedom of capital movements, which existed between France and those countries, is automatically extended to all EU countries. This openness combined with the ongoing trade liberalisation would help the CFA member states to get the full benefit of globalisation so avoiding the risk of marginalisation. The benefit would be clear if the CFA countries established and maintained strong macroeconomic policies and pursued appropriate structural policies. Again, one economist named Rose (2000) analysed the impact of currency unions on trade, using a database covering the trade of 186 countries between 1970 and 1990. He concluded that countries in a currency union trade over three times as much with each other as countries without a common currency. The results of this analysis point to the important of the long-term stability and credibility of an exchange rate regime. Unfortunately, the case of Franc zone is quite different as these countries trade more with their metropol, which is France than each other so they have not been much focused on the regional integration.

We believe that for CFA countries, the economic consequences are positive due to low inflation and interest rates and strong output growth in the euro-zone. However, the establishment of the euro in 1999 should contribute to reduce the volatility of the world commodity prices, other things equal. The existence of the EMU implies smaller monetary and fiscal shocks among the EU members thereby reducing the fluctuations on the world aggregate demand and indirectly the demand for primary commodities, which are important intermediate inputs in global production. It has been argued that under flexible exchange rate regimes, export and import prices are becoming more volatile thereby adding additional risk to export and import transactions. That additional risk incorporates the hedging exchange rate price risks. Then, the exchange rate volatility measures have statistically significant effects on commodity prices volatility.

3.3.3 The costs

Main risk would be a potential appreciation of the real effective exchange rate of the franc zone, which might affect economic activities and weaken the external competitiveness of these WAEMU countries. These countries would be exposed to the risk of asymmetric exogenous shocks relative to the EMU countries but it would not be higher than the shock between France and CFA countries.

Again, in the short term any European economic and financial imbalances would affect the Franc zone by weakening activities in their main export market and increasing the interest rate in France and the EMU in general. One said that higher interest rates would tend to lower credit demand and investment in the CFA countries and raise service payments mainly on external private debts (even though about 30 percent of external debt is denominated in US dollars).

More importantly, there would be the reverse impact on the exchange rate of the CFA franc and the zone's competitiveness from a potential:

1/ appreciation of the Euro vis-à-vis the US Dollar;

2/ uncontrolled strong Euros;

3/ higher volatility of the Euro against major non-EMU currencies

Since the introduction of the Euro in 1999, the currency is more and more strengthening while the US dollar is stagnating. That will have effect on the external competitiveness of the CFA member states. Alogoskoufis and Porter (1997) and Bergsten (1997) argued that the introduction of the Euro would induce an immediate reallocation of existing asset portfolios towards Euro-denominated assets, resulting in an initial strong appreciation of the Euro. This appreciation would cause the European Union countries to run external current account deficits, thereby increasing over time the supply of Euro assets and permitting a subsequent partial reversal of this appreciation of the Euro. Also, the attractiveness of the Euro as a reserve asset, rivalling the US Dollar and the prospective deepening of the Euro capital market would reinforce the upward pressures on the Euro.

4.0 COUNTRY PROFILE: GHANA

4.1 Country Background

Ghana is a nation rich in natural resources and human potential, which, in the early 1980s was in critical economic condition. At the time of its independence in March 1957, hopes were widely entertained that the country would prove to be the showpiece of African economic development, a model for others to follow.

4.1.1 Geography

Ghana is located on West Africa's Gulf of Guinea only a few degrees north of the equator. Half of the country lies less than 152 meters (500 ft) above sea level and the highest point is 883 meters (2,900 ft).

The country covers an area of 238538 square kilometres (92,000 square miles) and lies on the Gulf of Guinea with 554 km of Atlantic coastline which is mostly a low, sandy shore backed by plains and scrubs and intersected by several rivers and streams. It bordered in the west by Cote d'Ivoire, to the Northwest by Burkina Faso and to the east by Togo. All the three countries sharing borders with Ghana are former French colonies and belong to the CFA monetary zone. The climate of the country is tropical but temperatures vary with two main seasons (rain and dry) and elevation. The eastern coastal belt is warm and comparatively dry, the southwest corner, hot and humid and the north, hot and dry. The south is covered by rainy forest favourable to the growing of cocoa, coffee, rubber, oil palm, and plantain and providing timber and gold. The north is suited to cereal cultivation. A tropical rain forest belt, broken by heavily forested hills and many streams and rivers, extends northward from the shore near the Cote d' Ivoire frontier. This area, known as the 'Ashanti' produces most of the country's cocoa, minerals and timber. The manmade Volta Lake extends from the Akosombo Dan in the Southeastern of the country to the town of Yapei, 520 kilometres to the north. The lake generates electricity, provides inland transportation and is a potentially valuable resource for irrigation and fish farming.

The population of Ghana was approximately 17.34 millions in 1995. According to the United Nations Population Fund, the total population of Ghana in 2000 was 20.2 million. Currently, the country's population is growing by 2.5 percent per year. At the same time, the total fertility rate has declined from 5.5 children per women in 1995 to 4.5 by 2000.

As in the rest of Africa, young people between the ages of 10 and 24 comprise more than one third of the total population of the country. By 2025, young people will number 12 million. Also, this population is divided into more than 50 ethnic groups that 70 percent live in the southern half of the country.

4.1.2 History

The name of modern day Ghana was taken from the ancient kingdom of Ghana, which was one of the most powerful three West African states of Mali and Songhai. Its gloried period was between the 12th and 16th centuries. After the war in which Ghana's Empire had been defeated, they moved to the coastal belt of present day Ghana. Most of the inhabitants along the coast became traders and middlemen between European traders and the hinterland traders. Due to a profitable trade in gold, the coast had become the modern state of Ghana known as Gold Coast.

Until its political independence in 1957, Ghana was known as the Gold Coast and was first visited by Portuguese explorers in 1471. In 1482, they established a trading settlement or trading posts, lodges and castles on the coast. So, the region became a major supplier of gold to Europe. Gold, ivory and slaves attracted other Europeans. In 1642, the Dutch had forced the Portuguese out. In 1849, Netherlands withdrew from her Gold Coast colonial expedition after almost two hundred years of turbulence. They sold their possessions to the English at the handsome price of ten thousand pounds sterling. After a long battle among the European nations and much resistance from the indigenous kingdoms especially the Ashanti, the country was colonised by the British in 1901. At the end of World War I, part of German Togoland was added to the British possessions. However, Ghana was the first black African country to achieve its independence from a major European power in 1957. The Convention People's Party, led by the dynamic, revolutionary and socialist Nkrumah, who had headed the struggle for independence since 1951, ruled the country until February 1966 when he was overthrown in a military coup. According to Nkrumah, his government, which represented the first black African nation to win independence, had an important role to play in the struggle against capitalist interests on the continent. Unfortunately, some believed that he was a dictator, the reason why there was a coup. The National Liberation Council, a military-police junta, then assumed the reins of power until October 1969, when it handed over to another civilian administration led by Busia, a

pro-western, capitalist- oriented intellectual. However, the leaders of the coup opened the country's borders and its prison gates to allow the return from exile or release from preventive detention of all opponents of Nkrumah. Busia's government limited foreign involvement in small businesses in order to create employment for Ghanaians. Those measures were very popular but some were not such as the tuition fees at the university and the devaluation of the currency. Some observers saw Busia's devaluation and his encouragement of foreign investment in the industrial sector of the economy as conservative ideas that could undermine Ghana's sovereignty. Despite broad popular support garnered at its inception and strong foreign, the Busia government was victim of a military coup therefore this government was toppled in another 'coup d' etat' in January 1972 (Huq, 1989, P 35). Lieutenant Colonel Ignatius Kutu Acheampong, temporarily commanding the First Brigade around Accra, led a bloodless coup that ended the second Republic. The crucial causes were the country's continuing economic difficulties, both those stemming from the high foreign debts incurred by Nkrumah and those resulting from internal problems. The overthrow of Busia's government revealed that Ghana was no longer the peaceful place in Africa's search for workable political institutions. Both the radical left and the conservative right had failed thereby confusing many people with regard to the political direction the nation needed to take. Ghanaians were unable to arrive at a consensus on the type of government suited to address their national problems after Nkrumah's reign. On July 1978, in a sudden move, some officers forced to resign, replacing him with Lieutenant General Frederick W. K. Akuffo due to the continuing pressure to find a solution to the country's economic turbulences. There were successive military governments until September 1979, when a civilian government was sworn in with an elected civilian president Hilla Limann. On 31 December 1981, that government too was overthrown by the military, again the officer Jerry Rawlings. A new government with fifteen civilians took power on December 31, 1981 and was the eighth in fifteen years since the fall of Nkrumah.

Rawlings set up the Provisional National Defence Council (PNDC) and wanted Ghanaians to be part of the country decision-making process. Nonetheless, June 1982, an attempted coup had discovered and those implicated had been executed, forcing many people into exile. By the mid-1980's, the PNDC demonstrated its ability to move towards constitutionalism and civilian rule so that Rawlings had been recognised as an honest leader and the situation he was trying to solve was not of his creation. To move

in the desired direction, the PNDC needed to weaken the influence and credibility of all opponents while it created the necessary political structures that would bring more and more Ghanaians into the process of national reconstruction.

4.1.3 Politics

After the military coup in 1981, Lieutenant Rawlings started ruling the country and imposed an austerity plan that helped control inflation and attract financial aid from the West, including support from the International Bank for Reconstruction and Development. The currency was devalued three times in the 1980s. Agricultural production increased and Mr Rawlings successfully rescheduled Ghana's most pressing loans. Despite his popularity with the masses, Mr Rawlings's regime had to suppress many coup attempts during the decade. In April 1992, a referendum re-established constitutional government and Mr Rawlings, running as a civilian, won the presidency in multiparty elections in November. Since 1981, Mr Rawlings started his 19 years' unbroken reign. Mr Rawlings and his party NDC won the 1996 elections again, but the National Patriotic Party accused the NDC of massive electoral fraud coming out with documented evidence appropriately titled 'Stolen Verdict'. After twenty years of being in power, the NPP finally snatched political power from the NDC during the December 2000 elections. Thereby, Mr John A. Kufuor of the national Patriotic Party (NPP) won the largest share of the presidential vote compared to Mr Rawlings vice president and hand-picked successor John Atta Mills of the NDC. The NPP also won 100 seats and the majority in parliament. On January 7, 2001, Mr Kufuor took the oath of allegiance to faithfully serve Ghanaians, becoming the first elected president in Ghana's history to succeed another elected president. A strong message went out from the people of Ghana to the new elected government that, never again in the history of the nation, would one group of people be permitted to rule for so long with such little accountability.

TWENTIETH CENTURY -Rawlings Era

- **1979**: The ban on party politics is lifted and 16 new parties are subsequently registered.
  May - A coup staged by junior officers of the armed forces, led by Flt-Lt Jerry Rawlings, fails on 15 May and he is subsequently imprisoned.
  June 4 - Junior officers stage Ghana's first violent coup. Armed Forces

Revolutionary Council formed under Flight Lieutenant Jerry John Rawlings. July - Hilla Limann elected president in July.

- **1981:** Rawlings stages second coup, December 31. Provisional National Defence Council established with Rawlings as chairman.
- **1983:** First phase of Economic Recovery Program introduced with World Bank and International Monetary Fund support. Rawlings adopts conservative economic policies, abolishing subsidies and price controls, privatising many state enterprises and devaluing the currency.
- **1985** National Commission for Democracy, established to plan the democratization of Ghana's political system, officially inaugurated in January.
- **1988-89**: Elections for new district assemblies begin in early December and continue through February 1989.
- **1990**: Various organizations call for return to civilian government and multiparty politics, among them Movement for Freedom and Justice, founded in August.
- **1991**: Provisional National Defence Council announces its acceptance, in May, of multipartism in Ghana. June deadline set for creation of Consultative Assembly to discuss nation's new constitution.

- **1992**: National referendum in April approves draft of new democratic constitution. Formation and registration of political parties becomes legal in May.
- Jerry Rawlings elected president November 3 in national presidential election. Parliamentary elections of December 29 boycotted by major opposition parties, resulting in landslide victory for National Democratic Congress.
- **1993**: Ghana's Fourth Republic inaugurated January 4 with the swearing in of Rawlings as president.
- **1994**: One thousand people are killed and a further 150,000 are displaced in the Northern Region following ethnic clashes between the Konkomba and the Nanumba over land ownership.

  Late 1994- Ghana hosts peace talks for warring factions early 1995 of Liberian civil war.
- **1995** President Rawlings pays official visit to the United States March 8-9, first such visit by a Ghanaian head of state in more than thirty years.

Government imposes curfew in Northern Region as renewed ethnic violence results in a further 100 deaths.

- **1996**: Jerry Rawlings re-elected president for second and last term

21st CENTURY

- **2000**: Presidential and Parliamentary elections took place on 7 December 2000. Opposition leader John Kufuor polled 48.4% of the vote, not enough to win the first round. John Atta Mills scored 44.8% with the five other parties scooping the remaining votes. In parallel parliamentary elections, the NPP achieved a majority taking 99 seats. NDC took 92, PNC 3, Convention People's Party 1, independents 4. The Presidential run-off between Kufuor and Mills took place on 28 December 2000. Kufuor won taking 57% of the votes cast.
- **2001:** Kufuor is sworn in as the new president in January 7.
  26 February -Petrol prices rise by 60% following the government's decision to remove fuel subsidies.
  2001 April - Ghana accepts debt relief under a scheme designed by the World Bank and the IMF.
  May 26 - 126 people are killed at the Accra Sports stadium in a soccer match
  June - Government scraps public holiday celebrating Rawling's military coup in an effort to wipe out the legacy of his rule. Thousands marched in Accra to protest against statement by Rawlings that army may turn against government.
  June - Floods hit Accra causing 10 deaths and 100,000 to flee their homes.

4.1.4 Economic features

According to Huq (1989, P 1), part of the difficulty is that the economic confusion of much of the post independence period has been associated with corresponding failings in the coverage, robustness and timeliness of economic statistics. The Ghanaian economy in recent years has provided an unfavourable working environment, even to those who wished to determine the cause of economic decline.

A) Growth and structure of the Ghanaian economy

Growth of per capita real income during the immediate pre independence years was satisfactory and the country had a promising start as one of the richest, most successful and politically mature regions of Black Africa.

Since its independence, Ghana had a good development plan and substantial sterling reserves with annual average GDP growth rates of over 6 percent. So, the country was far ahead of many other developing countries. In 1960, its gross national income (per capita) of £70 was higher than that of Egypt (£56), Nigeria (£29), and so on. A lot of fluctuations occurred in the GDP growth during the 70s with negative growth rates and the average annual rate over the decade has been only 0.4 percent. The per capita GDP in 1982 was 180 Cedi much less than, in 1957, being 230 Cedi (Huq, 1989, P 2). Also, poor performances have been observed in the export and import sectors. So, as the fixed nominal exchange rate became highly overvalued, there was a significant drop out the export level. The trading of imported goods was so profitable that the economy shifted from production to trade facilitating a strong corruption in the import license allocation system.

It has been argued that, the disturbance of the economy was partly due to the political instability on one hand characterised by different military coups. On the other hand, the economy, suffering from various bad policy decisions, the economy was affected by the rapid rise in oil prices, declining demand for exports and weakening commodities prices; all those worsened the balance of payments.

The foreign exchange rate of the cedi and policy measures controlling prices of goods gave rise to a seriously distorted price structure. Growth in Ghana has been consequently positive compared to other sub Saharan Africa countries with per capita GBP fell by 0.3 percent per year during the past two decades (average 0.7 percent per year). That positive growth was due in 1983 to a shift from an administrative system of economic management to a more reliant on market forces. Policy reforms over the period helped to reduce fiscal deficits and inflation, improve infrastructure services and shift relative prices and incentives toward tradable, exports in particular. Progress in policy implementation has not been even over the period, however and at times has been marked by fiscal slippages particularly during elections cycles and occasional exogenous shocks (IMF, 2003, P 5).

In order to achieve the different targets, the Ghanaian government set up strong strategies and commitment:

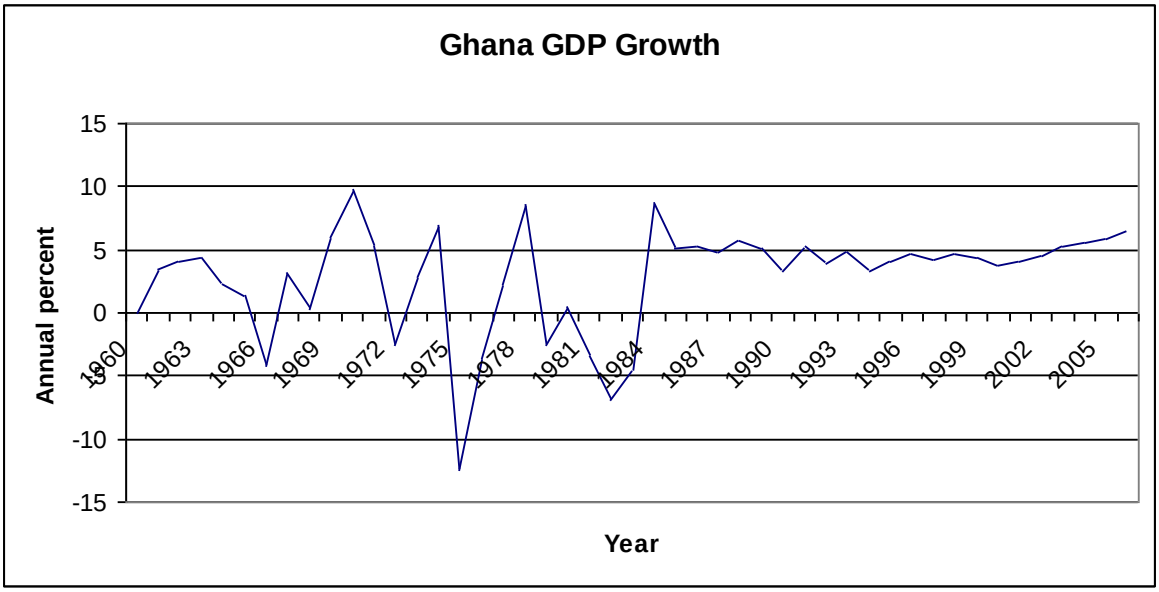
- Increasing internal revenue mobilization by improving the managerial and operational efficiency of revenue agencies;
- Improving public financial management by a more effective control and monitoring of public spending and reform of the public procurement system through greater transparency and improving the quality and coverage of our fiscal data;
- Strong monetary policy reducing the inflation and the development of an effective inter-bank foreign exchange market;
- Reducing the government's domestic debts as a share of GDP;
- Monitoring and protecting the health of banking system;
- Tackling the issue of poverty reduction through the implementation of the Ghana Poverty Reduction Strategy.

The real GDP growth exceeded the target of 4 percent and the government's domestic balance, the overall budget balance and the net international reserves of the Bank of Ghana were all achieved. These results were achieved through strong fiscal discipline and reduction in the rate of expansion of reserve money. The tax revenues exceeded the target of 5 percent mainly on the account of improved revenue collections and the expenditures for administration, services and investments have been reduced.

Table 4.1.4.A1: Ghana Macroeconomic Trends

Sources: World Development Indicators Database, April 2007; World Economic Outlook Databases, April 1999, September 2000, October 2007 and International Financial Statistics 1990, 1994, 2000, 2007 and February 2008.

2) GDP growth



Sources: World Development Indicators Database, April 2007; World Economic Outlook Databases, April 1999, September 2000, October 2007 and International Financial Statistics 1990, 1994, 2000, 2007 and February 2008.

The NDC government's reform programme reversed the economy's decline. Being -11.86 percent in 1975, GDP grew to 5.10 percent in 1985. The real GDP growth continued but at a lower pace of about 4 percent in 1995 to finally reached 5.90 percent in 2005 and 6.20 percent in 2006 due to confidence among consumers and strong investment. Sustained real income growth in Ghana substantially reflected progress on structural and macroeconomic reforms, which increased private sector activities and investment and raised income levels per capita. The 1983 reforms have seen a progressive real growth and been accompanied by a political evolution to a firmly democratic form of government in 1992 although, developments were periodically interrupted by episodes of weak macroeconomic management during elections. By expenditure category, growth has been consistently strongest for exports and imports, which, in turn, have stimulated growth in the services sector in Ghana (IMF, 2003, P 6). Consequently, a surge in spending on gross domestic capital formation appears to have followed on the heels of the 1983 reforms as this category rose from 4 percent of real GDP in 1984 to 24.8 percent in 1997 before reaching 32.9 percent in 2006 (World Bank, 2008). The recovery was most marked in the main export sub-sectors. The restoration of incentives has brought fresh investment into mining, where output has more than quadrupled since the mid-1980s, and led to a recovery in cocoa output. However, performance in Ghana's key sector, agriculture, is very much at the mercy of the climate. If the weather were bad, consequently, the agricultural output would lower and would

drag down the overall GDP growth. Economic growth has traditionally been created by public sector investment with political, cultural and economic climate inhospitable to private business. Early 1990s, the government has eased regulations and gave power to business in policy making through the Private Sector Advisory Group. Unfortunately, there was a decline of 42 percent in private investment due to the election related fiscal shock. That suggests that macroeconomic stability becomes a reality before private sector activity takes off. However, with the low level of domestic savings, combined with the government budget deficit, the investment effort and hence the growth process cannot be achieved without foreign capital inflows (EIU, 1997, P 13). Also, the dependence of the economy on aid for imports and capital projects continues to be a major concern but it is not strong because Ghana's net foreign aid was less than 5 percent of GDP, compared to 8 percent average for the rest of Sub Saharan Africa. Moreover, net aid inflows have not always compensated for losses resulting from declining terms of trade.

3) Inflation

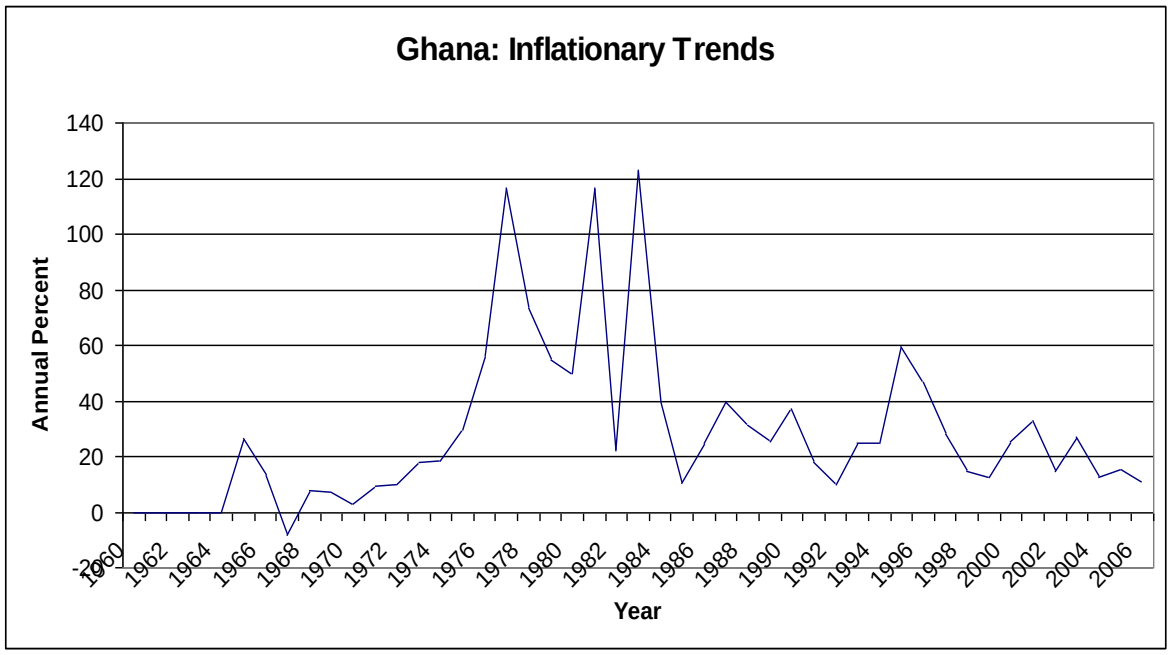
During 1972-82, inflation averaged 66 percent per year. A more sensible monetary policy brought down the rate to 10.1 percent in 1991 but since 1992, this downward trend has been reversed and inflation soared to a peak of over 59.20 percent in 1995 before falling back to 25.20 percent in 2000 and 10.90 percent in 2006. During this period, inflationary pressures remain subdued and the Cedi, relatively stable.

Estimates by independent think-tank CEPA indicated that inflation in Ghana was affected by change in output and money. The food industry was accounted for 49 percent in the consumer price index thereby any shortfall in agricultural production had significant impact on the inflation. The decrease highlighted the important role played by the weather conditions in explaining macroeconomic performance, inflation and GDP growth. Fluctuations in money were also a major factor contributing to inflation since the country had a low level of monetisation that made prices sensitive to small monetary expansion. The government failed trying to control the money supply due to massive pay rise, a large deficit and large increase in government borrowing. It has been explained that diverse increases were due to the government inability to reach its budgetary targets and 'a higher than expected increase in credit' mainly to public enterprises and institutions. Corrective measures had begun to take effect when

purchases resulting from an unexpected large cocoa crop swelled the money supply again. The different trend in inflation over the years is explained by improved food supply and a relatively stable exchange rate (Bank of Ghana, 1996, P 53).

The terms of trade shocks, the high government borrowing from the Central Bank and the general loss of confidence in the management of the domestic economy contributed to the build-up of inflationary expectations, increasing the year-on-year inflation. The excessive money supply growth, the loss of local food stocks and the increased petroleum prices were all added to the inflationary pressures between 1995 and 2001.

Figure 4.1.4.A.3: Inflationary Trends



Source: IMF, International Financial Statistics; World Economic Outlook April 1999 and October 2007.

These developments were quickly reversed through prudent fiscal management and tight monetary policy stance. The government moved away from Central Bank financing and resorted more to non-bank financing of its deficit. Also, the relative stability of the currency and the good harvest of food crops contributed to the deflationary trend (figure above).

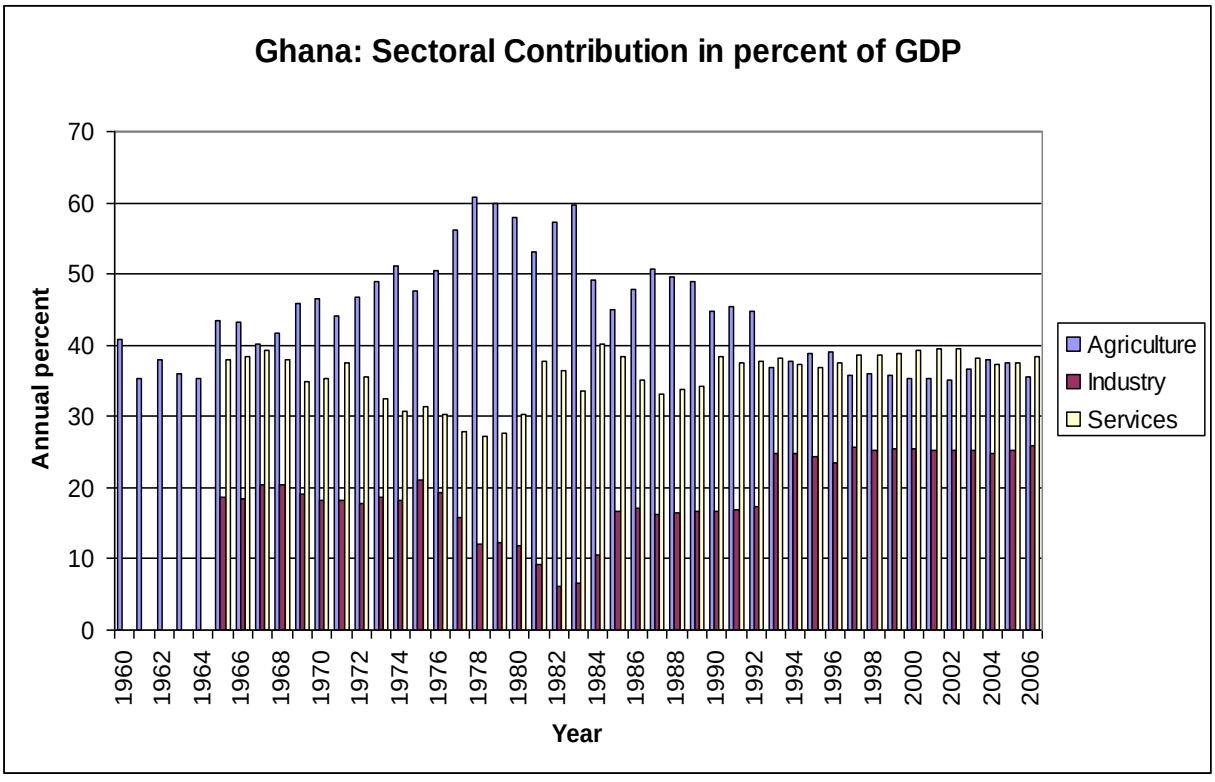
B) Performance by sector

At its independence, the prospects of Ghana economy were extremely good. It was the world's largest producer of cocoa. It had healthy mining and timber sectors and also by regional standards, a relatively well developed manufacturing sector. Kwame

N'krumah's Convention People's Party (CPP) government sought economic expansion through rapid industrialisation, directed and mainly funded by the state using the cocoa sector funds. The programme succeeded in establishing what industrial capacity the country has today but the implementation was made difficult by inadequate planning and a precipitous collapse in the world price of cocoa. The government failed to control the fiscal deficit, which had widened and also to adjust the Cedi to reflect growing current account deficits.

Agriculture, the largest sector in the economy, is contributing on average 36.65 percent to the country GDP. Services sector is overcoming the primary sector, reaching 36.83 percent of GDP. The industry sector is still struggling, contributing on average 23.57 percent to GDP (Table 4.1.4.B).

Table 4.1.4.B: Sectoral Contribution to GDP



Source: World Development Indicators Database, April 2007

We will analyse the performance of the economy sector by sector

a) Agriculture

Ghana's economy is largely agrarian, considering the size of the agriculture sector, comprising just over one-third of GDP and a significant share of workers employed in agriculture but the poverty is high among the group. The agriculture sector of the country is composed of crops (excluding cocoa) and livestock which together account for 63 percent of the value of agricultural production, cocoa (comprising 13 percent), fishing (13 percent) and the forestry (11 percent) since its independence. Growth in production during the past two decades has been slower than in the industry and service sectors and as a result, agriculture's share in GDP fell from an average of nearly 50 percent in 1980-1983 to 35.3 percent in 2000 and reached 38 percent by 2006.

However, the agriculture continues to play a strong role in Ghana economy accounting for 36.33 percent of GDP in 1995. Cocoa is perhaps the country's best-known crop but food crops are so far the most important contributor to agricultural output and alone make up 30 percent of GDP and employing most of the workforce. Despite its importance and fundamental reforms of the sector, growth has been slowed down and unpredictable. To remedy that fall, the government had removed food prices controls and raise cocoa prices closer to those on the international market. It had also reformed the agricultural input subsidy system, recognising that less attention had been paid to the sector, which was operating at only 20 percent of its potential. The sector produces timber, staple foods and cash crops. There are relatively few plantations and except for timber, small-scale operators produce the vast majority of output. Wood harvested for export, both in sawn wood and finished form but there are questions as to the sustainability of the current high rate of logging. Maize, yam, cassava and other root vegetables are the main food crops accounting for 55 percent of agricultural GDP. Cereal such as rice, millet and guinea corn rose dramatically, while output increased by 95 percent. Again, considering the importance of the agriculture in growth and its consequent impact on poverty reduction, the government launched a series of initiatives to stimulate its development and production. Thereby in the 90's, policies and programmes were guided by medium term agricultural development program, a framework aimed at improving the allocation of public resources and institutions in order to fully used Ghana agricultural potential while addressing the major constraints on growth in agriculture. That problem was due to:

- A lack of appropriate technology, both in the form of inputs (fertilizer and seeds) and farm machinery and implements;
- Inadequate and poorly maintained rural infrastructure, in particular, limited road access to domestic, regional and international markets and a lack of adequate post harvest handling, storage and processing facilities;
- Less developed rural finance system, high real interest rates and the virtual withdrawal of commercial banks from agricultural credit following liberalization of the banking sector;
- Weak rural institutions (farmers' organisations and cooperatives) created by a low level of education and extensive illiteracy among farmers and;
- Excessive reliance on rain fed crops in the presence of a low and erratic rainfall and other natural calamities such as soil degradation.

b) Industry

Growth in the industry sector fell sharply during the 1980-1983 period, regain in 1984-1991 and performed roughly the same as the rest of economy. The removal of high levels of protection, combined with real devaluations, improved the Ghanaian industrial environment particularly in construction, which rose from 24.89 percent of GDP in 1995 to 21 percent of GDP in 2006 (World Development Indicators, April 2007). However, the Economic Recovery Programme (ERP) has brought mixed results to the manufacturing sector. Reduce subsidies and exposure to competition has forced many businesses to rationalize and improve performance and capacity utilisation but others have gone under. Meanwhile, high interest rates, bank charges and lack of finance are prevented new and existing businesses from expanding. This could explain why manufacturing grew by a meagre 1.5 percent in 1994 and 1.8 percent in 1995. However, it did pick up to 3.3 percent the following year led by a recovery in beverage production (EIU, 1997, P 21-22). Again, Ghana has a broad and diverse industrial base covering aluminium smelting, sawmills, timber and agricultural processing plants, brewing, cement manufacture, oil refining, textiles, electrical, pharmaceutical, mining and many others. All this has been set up during N'Krumah reign in order to create self- sufficient Ghana with a diversified industrial base. Unfortunately, the planning and policies were not properly conceived as many industries closed doors while keeping unviable plants

afloat with subsidies and protective policies. In 1982, utilisation of industrial capacity had declined to 21 percent in medium and large factories. The real impact of reforms began with real outcome after the mid-1980s. Capacity utilisation rates recovered from 35 percent in 1987 to 40 percent in 1988 and 44.5 percent in 1992. Meanwhile, manufacturing has remained stable at around 25 percent of GDP since 1985 (Table 4.1.4.B).

Different factors contributed to manufacturing growth including the overall investment climate are (IMF, April 2003, P 11):

- The 1994 Ghana Investment Promotion Centre (GIPC) Act, which simplified the administration burden for the start-up of a foreign-owned company, protected firms from expropriation and provided corporate tax and duty incentives especially for non-traditional exports.
- High proportion of Foreign Direct Investment (FDI) directed to food, aluminium and plastic products and non-traditional agribusiness export industries export industries as well as secondary effects from FDI, including improved technology, products and managerial skills.
- Ghana's general comparative advantages, which comprise a huge supply of low-cost labour, fertile soils and climate and experience with garment manufacturing.

Unfortunately, there have been missed opportunities for manufacturing and non-traditional exports and also, investment has been solely made in Great Accra area leading to less development and growth in small and medium sized enterprises.

c) Services sector

Compared to the agriculture and manufacturing, growth was higher in the services sector during the 1990's with 6.2 percent per annum with higher than average growth in wholesale and retail trade which is 6.8 percent, transport, storage and communications (5.8 percent) and finance and other business services (4.8 percent). It contributed 41 percent of GDP in 2006 from 28.05 percent in 1995.The services sector grew rapidly due to its complementarity with exports and imports which in turn grew also more rapidly than GDP during that period. Ghana has a strategic location in West Africa that stimulates transit trade. The country liberalized the cocoa sector, which promoted a recovery in cocoa production for export; the positive effects of earlier public investments in road, rail and ports and the different adjustment programme which

emphasized banking and telecommunications. Developments in the services sector are consistent with trends in foreign direct investment and household surveys data.

d) Telecommunications sector

This sector was waiting for a new and strong investment and competition capacity in 1995 was 98,000 lines. Many of which were in bad working order putting availability at around five telephones per thousand people. In 1996, the government privatised the state-owned telecommunications company, so 30 percent of Ghana telecom has been sold to a Malaysian-led consortium to install 225,000 new lines in 2002. Another competitor, the ACG Consortium, has been licensed to install a further 50,000 lines and will invest more than US$40 million during the next decades. Telephone users increased from 218,000 in 2000 to 3 millions at the end of 2005.

4.2 Ghana Monetary Policy and its exchange rates

During the period of the independence, Ghana had one of the highest per capita incomes in Africa, especially Sub-Saharan Africa. It had also benefited from Great Britain's huge external reserves, when they were leaving the country. After its independence, the country was a typical open economy, strongly dependent on international trade. Its economy was rural and its GDP originated in agricultural and related activities. Capital and consumer goods were generally imported and exports concerned the cocoa trade, generating about three-fifths of total foreign exchange earnings. Again, Ghana, a member of the sterling area, had a fixed exchange rate pegged to the British pound. So, the country was subject to the general prescriptions of sterling requirements. Any payments to and from other countries of the area were relatively free while payments to third party countries were subject to the sterling restrictions.

4.2.1 Monetary policy

Since 1961-1965, the government started borrowing heavily from central and commercial banks, around C149 million but the money supply amounted to only C114million. This method of balancing the budget had a strong expansionary impact on the monetary situation. This was all the greater because for much of this period, the form of government borrowings from the banks, largely the sale of Treasury Bills, kept the commercial banks highly liquid and they were thus able to expand their lending to other borrowers while at the same time extending more credit to the government

(Killick, 1978, P 156). There was great need of government's borrowing in the 1960's from the banking system although their shares remained constant despite the continued growth in its debts.

The Bank of Ghana, newly established, was focusing more on the smooth transition from the Currency Board system than pursuing an active monetary policy. At the same time, the monetary trends were potentially inflationary. Thus, in 1964, the Bank of Ghana slowed down the growth of bank credit to non-government borrowers by reducing bank liquidity and raising statutory reserve ratios but that policy was inefficient. In fact, lending to other borrowers than the government had been accelerated from 1963 to 1965 and those continued borrowings were added to the monetary expansion. That attempt of the bank of Ghana to control access to credit faced three factors:

- The change of the method of financing the cocoa crop combined with serious financial problems of the Cocoa Marketing Board was the cause of new domestic credit. However, that Cocoa Marketing Board was set up to provide marketing services to farmers by purchasing at cheap rate and selling at high price on the international market, making large profit.
- The government owned commercial bank did not observe the reserve ratios set by the Central Bank, which, in turn, was unable to insist that they be observed. That means that no control could be applied to any state's institutions.
- The most non-government borrowings, which were undertaken by other public bodies, were politically very difficult to control, the same as the government itself, for example, the public sector borrowing was estimated to 86 percent of the total bank credit in 1965. (Killick, 1978, P 157)

The Bank of Ghana continued to pursue its policies to curtail inflationary pressures, which beset the economy and stopped the depreciation of the local currency against the major foreign currencies. Also, the structure of reserve requirements of commercial banks was changed to control the level of liquidity in the system. The main objective of monetary policy was to reduce inflation and stem the downward slide in the value of the currency. Open market operations were intensified to reduce the level of excess liquidity in the economy. Also, the wholesale system of marketing Treasury bills/notes and Bank of Ghana bills/bonds were introduced, aimed at promoting an active secondary market, on one hand and improving the conduct of the open market

operations on the other hand. Furthermore, the structure of reserve requirements changed essentially to reduce the aggregate secondary ratio and raise the cash ratio (The Bank of Ghana, 1996, P13).The purpose was to reduce commercial banks capacity to create money and the same time, maintained its lead interest rate, the bank rate at 45 percent in order to keep its commitment to a tight monetary policy stance. Few years ago, the government established and guaranteed the independence of the central bank and enhanced the bank's operational efficiency and strengthened its supervisory role. However, the law limited the government borrowing from the central bank to no more than 10 percent of the current year's government revenues and any advances and loans made have to be approved by the Board of the Bank of Ghana. Monetary policy is focused on reducing the inflation rate as well as the rate of depreciation of the Cedi. The Central Bank continued to tighten the monetary policy through open market operations. The low level of intermediation in Ghana is associated with a lack of confidence in the financial system, weak financial infrastructures and significant crowding out of private sector credit owing to high levels of government and parastatal borrowing from the banking system. The latter borrowings, in turn, have resulted in high nominal and real interest rates, a preference by commercial banks to hold lucrative, relatively risk-free treasury bills, rather than extend riskier credit to the private sector and a correspondingly small share of private sector investment as a percentage of GDP (IMF, 2003, P 15).

Two main keys to promoting financial intermediation are the preservation of a stable macroeconomic environment and a reduction in the stock of government domestic debt. This will increase public confidence in holding domestic assets, which, in turn, will decline inflationary expectations in the economy.

4.2.2 Money supply and reserves

Since 1960, every year has been marked by an overall deficit in Ghana's external Payments and current account. The country started at Independence with valuable external assets which ended with huge negative reserves. However, Ghana had short-term obligations to the IMF and commercial banks, which exceeded the value of the central bank's foreign exchange assets. Thus, the country was obliged to contract very large foreign debts amounted to about C640 million in 1966 at the same time of the first coup putting Nkrumah outside office. This is added to the poorest performance of the

cocoa industry. So, Ghana which was the world's leading cocoa producer began to slip so that, in 1970-1971, it contributed only 26 percent of world output, compared to 37 percent ten years earlier. Then, a large devaluation of the currency had occurred in 1971 followed by another coup. Reserves slumped, unpaid import bills piled up and the IMF were sent for again (Killick, 1978, P 107). In 1996, money supply recorded a higher than expected growth of 34.2 percent. The main contributory factors were credit to the private sector and net credit to government by the banking system, creating huge domestic debts. Since then, there has been a slowdown in the growth of money supply considerably to 13 percent in 2005 while at the same time credit to the private sector has increased.

4.2.3 The exchange rate policy

In 1959, Ghana launched a state-led development strategy emphasizing import-substitution industrialization included in the first post independence five-year development plan. Thus, that plan was focused on massive increases in government expenditure. The real private consumption demand also increased as a result of increased income. These factors coupled with falling cocoa prices and a liberal trade regime caused the current- account deficit to increase sharply. According to Jebuni, Oduro & Tutu (1994, P 1163), economic analysis shows that where a developing country undertakes expansionary development programs with a fixed exchange rate, it will be forced eventually to use its fiscal and trade policy instruments to compensate for the inappropriateness of the fixed exchange rate. Despite the expansionary development programme and the deterioration of terms of trade, the fixed exchange rate had been maintained. That situation had created severe balance of payments deficits and forced the introduction of trade and payment controls in order to protect the domestic import-substituting industry and increase government revenue in the face of declining fiscal performance in case of tariffs. Again, despite the deteriorating balance of payments and fiscal deficit, the government launched the seven-year development plan in 1963-1964, involving massive public expenditures to increase the import- substitution industrialization effort. In the meantime, the government refused the IMF/ World Bank adjustment programme involving devaluation. This increased pressures on the system resulting in increasing abuse and corruption with the decrease in foreign exchange reserves and increase borrowing abroad.

Ghanaian policy-makers did not adjust the exchange rate until August 1978 but they tried to liberalize the trade regime in 1978-1980. It was recognized that the strict import control system contributed to the problems facing the manufacturing industry. It was very difficult to completely remove the controls because of the balance of payments implications. Moreover, some companies had a comparatively liberal regime while others did not, due to the fact that all the state owned firms were not liable to certain charges and well-protected vis-à-vis the competition with others. Since, the government was not capable in reducing the anti-export bias primarily due to its failure to devalue the nominal exchange rate; these attempts to liberalization had not been successful. In 1982, the real exchange rate had appreciated considerably and there were differences between the official and parallel markets exchange rates. Import volumes, real government revenue and cocoa export volumes were at their lowest levels since 1960. The country was faced with foreign exchange crisis and negative growth rates.

The decline in the growth of export values and the dependence on foreign exchange earnings from merchandise exports was caused by the low producer prices offered by the Ghana Cocoa Board and the capacity to import had declined at the same time. The performance of the domestic manufacturing and agricultural sectors were constrained by the lack of imported raw materials and inputs. As a result, the currency has been devalued in 1986 including three nominal devaluations. Multiple exchange rates system based on a weekly auction system called Window II and a fixed exchange rate which was the prevailing official rate (Window I) was introduced in September 1986 to allow the exchange rate to be determined by domestic demand and supply factors, promoting trade liberalization and divert foreign exchange held outside the banks into the banking system. The import licensing system, which was in operation in 1983, had been maintained, until 1986 when the new exchange rates system was introduced. The tax schedules were adjusted downward in 1983 with the introduction of the bonuses and surcharges. The net effect was to increase the effective exchange rate for both imports and exports (Jebuni, Oduro, Tutu, 1994, P 1165). Again, the two window system was abolished while access to auction increased.

Foreign exchange bureau (Forex) was set up to freely sell foreign exchange to importers and other users and to purchase foreign exchange from non-traditional exporters and recipients of remittances from abroad. Market forces through the demand and the supply of foreign exchange determined the bureau rate. At that point, two official exchange

rates took place, one concerning the liberalization of access to the Bank of Ghana foreign exchange auction and the other one the remaining holders of licenses eligible to bid for foreign exchange at the auction. The import licensing system was abolished due to the introduction of the foreign exchange auction and foreign exchange bureau. Thus, exchange rates and international trade taxes are the principal instruments used in the implementation of trade policy. Also, the wholesale auctions were abolished and the central bank's management of the exchange rate market took place directly in the inter-bank markets.

Given those reforms, the currency continued to depreciate in terms of the major foreign currencies in both the inter-bank and the Forex market due to the slow disbursement of foreign loans and grants coupled with increased demand for foreign exchange. Nonetheless, the share of commercial banks' foreign operations as well as the share of bank assets denominated in foreign currency increased but instable, reflecting the increased stability of the Cedi exchange rate.

The reasons for the stability of the Cedi exchange rate were due to the increased confidence of Ghanaians in the prudent financial policies of the government. Indeed, the stabilisation was achieved on the fiscal side by strictly limiting the government's borrowing requirements and on the monetary side by shifting its financing from bank to non-bank sources through coordinated open-market operations. Also, the reduced demand for foreign exchange to service debts as a result of Ghana's HIPC declaration as well as lower government spending and money supply growth are contributory factors to the observed stability of the Cedi exchange rate.

The foreign exchange market had improved remarkably as monetary discipline had been restored and macroeconomic performance strengthened. The Bank of Ghana has maintained a policy of non-intervention in the exchange market and has made no foreign exchange sales to the market other than those for oil imports allowing the exchange rate to be determined by market forces.

It is more and more question of creating a monetary union in West Africa including Cote d'Ivoire and Ghana. Let us evaluate the potential of that union in next section.

4.3 West African regional integration

In the last five decades, sub-Saharan African countries had experimented with different exchange rate and monetary policy regimes such as currency Boards, fixed exchange rates, dual exchange rates and managed-floating regimes. Unfortunately, the results to the diverse policies were bad and did not improve the continent living conditions. The poor economic performance coupled with the successful launching of the Euro in 1999 gave some sort of confidence to establish monetary unions in African regional economic communities. It also led to calls for a re-examination of the different exchange rates regimes on the continent in order to analyse the impact of a monetary union on the economic development of a nation.

However, in April 2000, heads of states of six West African countries (Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone agreed to set up a currency union, the second union in he region by 2003 called West African Monetary Zone (WAMZ). It expected that the new currency would merge with the existing CFA franc in 2004, resulting in a single currency in the ECOWAS unfortunately; the project for that union has been postponed due to convergence criteria and real commitment from heads of states. There were also plans for Eastern and Southern African countries to establish a monetary union with a common currency.

Despite their determination to create a monetary union, less theoretical or empirical work had been done to ascertain whether or not a common currency would be feasible and/or the optimal exchange rate regime would be a success. At this end, an Ad-hoc Expert Group had been set up to analyse the desire or the feasibility of monetary unions in African Regional Economic Communities. According to Osakwe and Dupasquier (March 2003), there are two alternative exchange rate regimes that are really feasible in developing countries: a monetary union and a flexible exchange rate regime and they concluded that a monetary union would be beneficial to the ECOWAS region given the transaction costs which have to be more than 1 percent of GDP.

To reach that aim to have a common currency, member states should commit themselves strongly by imposing fiscal discipline. That is the case for Nigeria, which is the dominant player in the region, has a high fiscal distortion that would put pressure on the common central bank to produce excessive inflation and also a history of huge

government spending. Nonetheless, the Nigerian bad reputation might change if the country joins a monetary union, it had been argued.

Concerning the effect of a monetary union on fiscal discipline, there are diverse arguments supporting the idea that a monetary union may worsen the tendency towards excessive fiscal deficits. However, the country with high fiscal deficits and debts would be unwilling to tighten their fiscal policy because it will be bailed out by the common central bank if it defaults in its debts. Also, in a monetary union, countries could run expansionary deficits for a long time before the consequences begin to show up in macroeconomic variable of interest to the public and corrective action is taken.

In contrast, a monetary union could enhance fiscal discipline if the common central bank is independent, and thus reducing the strategic influence any government may have on the monetary authorities. Moreover, if a monetary union requires members to satisfy well specific convergence criteria, it might provide an "agency of restraint" over macroeconomic policies of member countries thus enhancing fiscal discipline (Masson and Patillo, 2001).

5.0 TRADE PATTERN: COTE D'IVOIRE versus GHANA

This section assesses the theoretical aspects of the trade link, on one hand between Cote d'Ivoire and the Rest of the World and on the other hand Ghana and the Rest of the World including the European Union. A comparison is drawn between these countries to appraise the impact of the exchange rate regime on Ivorian and Ghanaian businesses and their overall economy in the following chapters.

5.1 Definitions

Economists believe that movements toward free trade provide positive benefits. However, free trade involves great interdependence among nations and is currently linked to globalisation. It has been said that poor countries would gain more from free trade or freely functioning global market. That is due to the fact that development requires economic growth to alleviate poverty and greater access to world markets is a necessary condition for more rapid growth (EUI, 2000, P 19).

The issue of market access for African countries attracted much attention during the 1986 -1994 Uruguay Round of multilateral negotiations. However, all African countries have entered into contractual preference arrangements with the European Union. Because of colonial ties, the EU accounts for more than two-thirds of total African trade. African countries also enjoy preferential treatment for certain export products to open major markets such as the US and Japan under the General System of Preference. In recent history, countries which adopted open-economy, export-oriented growth and development strategies, have done well (Example of the East Asian Miracle). Unfortunately, African countries carried on protecting their economies and have done poorly with the models of trade intervention and protection dictated by their historical ties (Amponsah, 2002, P 2-3).

Recent lessons which have been learnt about economic growth are that policy regimes make a difference as to whether a developing country converges to high-income levels.

According to Nash (1993), quantitative restrictions have declined and have been replaced with lower tariff levels but little progress has been made by individual countries in establishing efficient systems and institutions that would provide exporters with access to inputs at internationally competitive prices.

Africa, in general, is experiencing declining shares in almost all sub-sectors of worldwide trade and is still concentrating on primary commodities whose share of the world trade has been declining as shown in the different tables below.

African countries should change its current economic development course if they want to get the full benefit of globalisation such as increasing its available resources for productive investment, enhancing efficiency of their uses and facilitating transfer of appropriate technology to enhance its production processes, and thereby reduce poverty.

Furthermore, strong regional integration has been advised or risk of being more marginalised by the forces of globalisation. They suggest that African regional integration would facilitate wider integration into the global economy so to gain easier access to greater trade flows, finance, technology, enhancing economic growth and human welfare.

Moreover, Ajayi (2001) suggested that integration must be achieved through trade, capital flows, human migration and advances in telecommunications and transportation.

However, Africa has faced huge debt problems and unfulfilled promises of official assistance from rich countries, lack of political will, weak institutional mechanisms, proliferation of sub-regional agreements with multiple membership therefore poor implementation, weak bargaining power on the diplomatic front and poor leverage in pursuing peace and security (Amponsah, 2002, P 5-6).

Therefore, if a country is opened up to international trade and sets up the necessary capacity to negotiate effectively and efficiently within the WTO's rules then trade and economic growth are likely to increase. This in turn will reduce poverty and improve the living condition of the population (Dollar and Kraay, 2001).

Also, the openness should bring new ideas and knowledge, investment products and intermediate inputs from industrial countries which may increase growth significantly. African countries are advised to encourage private investment, improve their institutions (for example managing conflicts) in order to maintain macroeconomic stability and adapt to external changes. Before analysing the Ivorian and Ghanaian trades in details, let us briefly review the different trade cooperations between African, Pacific and Caribbean countries and their mainly partners, the European Union.

5.1.1 European Community/ ACP conventions

By 1957, the European Community had already established some dispositions allowing co-operation between the European countries and African, Caribbean and Pacific States. However, the Lome Convention between the fifteen member states of the EU and the seventy ACP countries represents the main framework within which cooperation took place. Of the seventy ACP countries, 47 are from Africa plus Namibia joining at its independence in April 1990 and Eritrea after its independence from Ethiopia in 1993, 15 are from the Caribbean and 8 from the Pacific. Some countries and territories (OCTs) particularly those of the UK and France remain part of the system.

At the time when the Treaty of Rome was signed in 1957, all the ACP states were still colonies, providing an element of aid to these colonies in the form of an implementing convention added to the Treaty. Again, it was a sort of unilateral association between the EC and its member states and OCTs through which trade and aid links have been maintained.

In 1963, the Yaounde (Cameroon) Convention was signed between the EC6 and eighteen new independent countries including Madagascar providing provisions for preferential trade arrangements and financial and technical assistance. The second Yaoundé Convention was signed in 1969 reinforcing the grants given for economic and social infrastructures projects. In 1973, the UK joined the European Community dragging in all the Commonwealth countries to the convention.

In February 1975, the first Lome (Togo) Convention was signed and in June 1975, forty-six ACP countries institutionalized themselves as a group with a permanent structure.

According to Frederick Nixson in the 'Economics of European Union' (1997, 409), Lome I has been described as a 'partnership of equals' and a number of joint institutions were created to administer the Convention. It introduced Stabex, a system designed to stabilize commodity earnings and at a time of stalemate in the global negotiations aimed at the creation of a New International Economic Order (NIEO). It appeared to offer an opportunity for a group of industrialized and developing countries to break out of the impasse to establish a regional arrangement that would incorporate a number of items on the NIEO agenda. Unfortunately, Lome 1 showed its limit with the first oil price

shock of 1973-74 followed by a brief boom in some primary commodity prices and the second in 1979-80, which hit the majority of African economies. In 1980, Lome II was signed with a large European Development Fund (EDF) and a Sysmin facility in the mining sectors. In 1985, Lome III was signed covering a strong commitment to self-reliant development on the basis of food security and self-sufficiency, enhanced by a broad-ranging policy dialogue between EC members and the ACP states. Stabex conditionality was tightened up, and with the involvement in macroeconomic policy-making through the provision of resources incorporating diverse programmes of structural adjustment.

Steven (1990, p84) argued that the first three Lome failed to transform radically the ACP economies due to:

a/ poorly used, financing projects either poorly designed and/or whose possibilities of success have been weakened by a hostile policy environment

b/ aid have been badly administered by donors with slow rates of disbursement, duplicated appraisal procedures, over-centralisation and recipient imposition.

In December 1989, Lome IV had been signed which was the first time covering a period of ten years although the financial protocol covered the first five years only with mandatory renewal provided for at the end of that time. Lome IV focused on the environment protection, agricultural cooperation and food security, industrial cooperation and services promotion that support economic development, cultural and social cooperation and finally special aid to countries with low incomes and large debts.

However, the co-operation is typically commercial and the Community tried to compensate for the losses in export income, giving grants to countries facing natural calamities and adverse economic circumstances.

In the field of trade cooperation, the objective of the convention is to promote trade between the contracting parties, taking account of their respective levels of development and in particular of the need to secure additional benefits for the trade of ACP states in order to accelerate the rate of growth of their trade and improve the conditions of access of their products to the market of the European Economic Community.

Products from the ACP states should be imported into the Community free of customs duties and charges having equivalent effect other than those, which the member states apply among themselves.

The EU is the dominant trading bloc for Africa and one of the principal sources of bilateral and multilateral aid.

However, Africa's exports to this zone in 97 were worth $48bn while the imports totaled $52bn.

The Euro will encourage more efficient use of cash for example African companies and investors will benefit from only having to take one currency-risk rather than 15 and 27. And more, it may challenge the dollar's hegemony as a leading reserve and trading unit and will become an international currency of reference for much of Africa.

The generally disappointing growth in Africa over the last 20 years reflects the difficulties posed by institutional and economic factors including the lack of resource endowments, the low level of human capital, the administrative, legal, and institutional framework, the stance of financial policies and structural policies that have often been distortionary. Those factors added the declines in terms of trade have contributed to push down the economic growth of Africa. Those declines are due to the fact that the Community is the partner of the developing countries rather than the European Union.

The globalisation of the world economy and the elimination of the Cold War have fundamentally changed the geopolitical context of the Europe's relations with developing countries, (Cosgrove, 1999, P3).

However, the original Treaty of Rome establishing the European Economic Community (EEC) recognized the African colonial legacies of the member states. At the earlier stage, the relations with Africa are at the core of EU policies towards developing countries, while regionally based networks of relations complement the core in the Mediterranean, Asia and Latin America.

In June 2000, a new ACP - EU partnership Agreement was signed in Cotonou, introducing some major innovations and assessing the role and impact of the ACP side in the different negotiations and some implementation challenges. That new partnership is very much different from the Lome Conventions and provides a comprehensive and

integrated approach and strengthened partnership that will be more effective in addressing the major challenges confronting the ACP.

The convention is aimed to tackle poverty within the ACP countries by establishing effective ACP-EU political dialogue, development support and trade and broader economic cooperation. It is particularly focusing on reversing the trends towards economic, technological and social marginalisation of the ACP states by specifically stimulating regional integration among those countries and their better involvement in globalisation trends. It is also about to enhance ACP-EU adherence to the accepted international principles of respect for human rights, the rule of law, good governance and democratic processes and practices specially corruption and transparency. Its uniqueness is also in the ways in which the partnership aims to encourage greater participation by civil society, the private sector and trade unions.

The Cotonou Convention has been signed for 20 years and is to be revised every five years. It covers five main points:

1/ It will be a priority objective in the future to integrate the ACP countries into the world economy by liberalising trade, as required by the World Trade Organisation. The convention abolished the price stabilisation mechanisms that safeguarded the export revenues of the these countries from agricultural products (Stabex) and mineral products (Sysmin)

2/ Aid is no longer automatic. It depends on the achievement of targets (institutional reforms, use of resources, the reduction of poverty, long-term development measures). Each country has a budget covering aid planned on the basis of a national cooperation strategy (NCS).

3/ The fight against poverty, encompassing regional integration, development of the private sector, structural and sectoral reforms, social (youth, equal opportunities), cultural and environmental policies.

4/ The population concerned must be informed and consulted to increase participation by the economic, social and local community actors in the implementation of projects.

5/ Provision is made for a political dialogue on all matters of mutual concern, nationally and regionally as well as at ACP level. Procedures, notably the suspension of aid, are put in place in case of human rights violations and/or corruption.

The ACP group is not homogenous concerning its relation with the Eurozone. However, the USA is linked economically and financially to most Caribbean countries while Japan and Australia are major partners for much of the South Pacific. The EU is the main grant-aid donor for most countries through the Lome Convention.

At the international level, the Euro is playing an important role in countries with tight economic, trade and financial links with the EU such as certain Mediterranean and African countries. The Euro is already the reference currency for the CFA franc zone. Its effects differ according to the share of economic and financial transactions each ACP state has respectively with the USA, Japan, Australia, Canada and the Eurozone.

According to Dr Granell (1999, P 6), the consequence of introducing the euro for countries that have trade, tourism and financial links with Europe are both direct and indirect. The direct effects relate to trade creation, trade diversion and the impact of establishing a single financial market in Euros for the foreign debt of non-EU countries. The indirect effects relate to the global or 'systemic' effects of the euro as a new international currency. It is worth pointing out here that ACP states receive significant amounts of aid from the EU and the denomination of this aid has been switched already from ECUs to Euros.

The ACP countries maintaining a close US Dollar link will be affected to the extent that the Euro would be more or less volatile against the other G3 currencies. The most important question is whether the Euro will increase or reduce exchange rate volatility between the main international currencies. Therefore the developing countries must watch the different fluctuations between international currencies.

5.1.2 Ivorian Trade

Being a coastal country, Cote d'Ivoire's markets have always been diverse, more than its land-locked neighbours. But, the country is a narrow export base consisting of primary products such as cocoa, coffee, timber and recently petroleum products. Chelariu et al. (2002, P 458) argued that the country has a long history of positive net trade accounts with the world, primarily with the European Union and the US markets, a feat that is

rare in Africa. With increasing global competition, Cote d'Ivoire is likely to lose market share in global markets in which it has traditionally held comparative and competitive advantage.

The country is extremely vulnerable to changes in commodities prices whilst it runs a positive trade balance since 1960's. Cote d'Ivoire did have a negative balance in the 1980's due to the large fall in commodity price led to a recession. According to the IMF, the deterioration in Cote d'Ivoire's external competitiveness in the 1980's reduced its opportunities for developing non-traditional sectors and diversifying exports. Since 1995, the government has implemented a series of trade reforms to open up the economy. Non-tariff barriers on goods and services began to fall with the elimination of import restrictions on wheat, rice, sugar, flour, second-hand clothes, tyres and spare parts. Only refined petroleum products and cotton fabrics faced import restrictions. Items such as bread, prescription drugs, schoolbooks, butane gas and indicative producer prices for major export crops remain under price control. Other reforms have been introduced with the partial liberalisation of the coffee and cocoa sectors.

The economy of country, which relies hugely on its agricultural exports is characterised by a positive trade balance but this has declined since 2002 due to its politico-military crisis. However, Ivorian exports are reasonably diversified although mostly agricultural products, especially to France, the Netherlands and the United States. In return, the country depends on France for as much as one third of its imports. It benefits particularly from the Lomé Agreements which made Cote d'Ivoire one of the associates of the European Economic Community (Common Market) but its strong dependence on the former 'mother country' has contributed to its balance of payment problems. The stability brought by a currency attached to the French Franc and now Euro sometimes diverted exports to less privileged neighbours. The government put in place a vast programme of diversification to export non-traditional goods. Therefore, oil exports rose, accounting for 15 percent of total exports, in 2005. The trade with EU-25 accounted for 42 percent of imports to Cote d'Ivoire while ECOWAS accounted for 25 percent of aggregate trade the same year (OECD, 2006, P 9). The trade within Africa is about 35 percent of exports and 29 percent of imports, its largest African import suppliers being Nigeria, Cameroon and Senegal. In an attempt to promote the free circulation of goods, services, manpower and capital within the Community, tariff and non-tariff barriers to trade within ECOWAS, some reforms have been put into place.

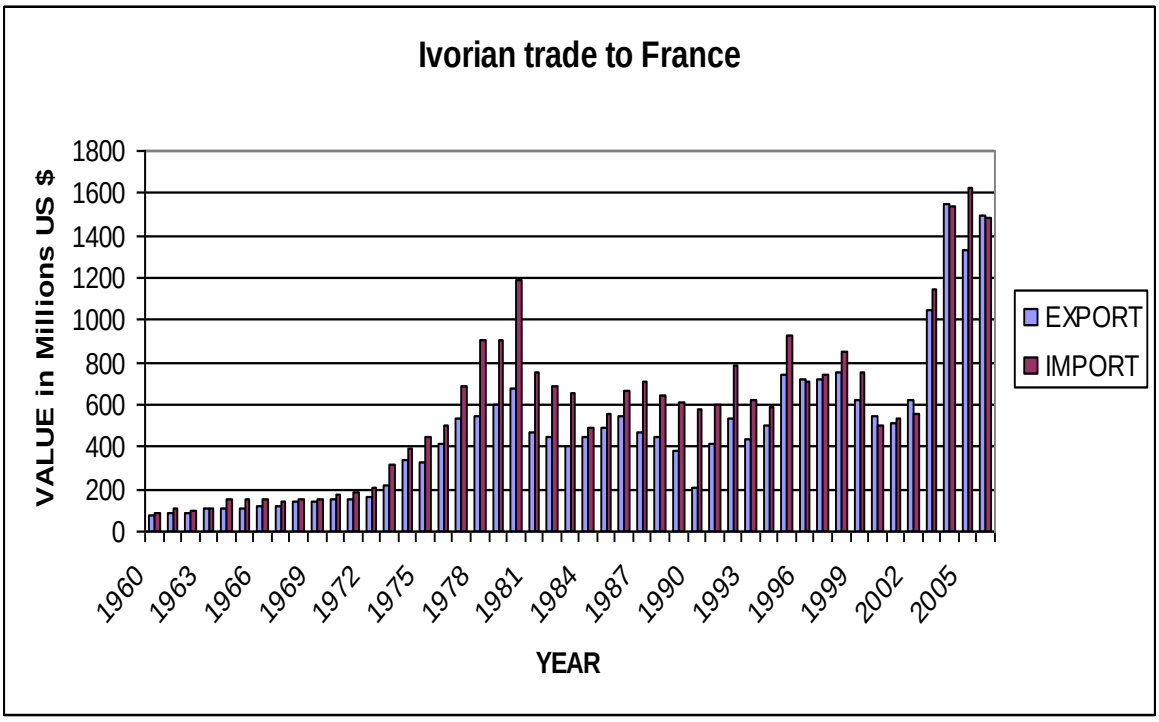
Moreover, Cote d'Ivoire benefited from the Lome convention, giving preferential trade agreements with the European Union; it is now part of the Cotonou agreement which replaced the Lome convention in June 2000, thus still enjoying referential trade. It captures 0.19 percent of all ACP-EU trade (Eurostat, 2000).

In sum, the surplus in the Ivorian trade balance should increase if the country achieves its former stability, attracting international investment by improving the business environment.

In 2002, according to the United Nations Conference on Trade and Development (UNCTAD), Cote d'Ivoire was not among the African nations most affected by the overall reduction of foreign direct investment (FDI). Ranking 78th in the list of countries receiving the most FDI in the world, the country is in the 4th place among Sub-Saharan African countries behind South Africa, Angola and Nigeria (OECD, 2006, P11).

The country's economy shows signs of high vitality and offers many diversification opportunities. It is keen to diversify its trading partners while continuing to rely on its historical partner, which is France. Let us analyze the volume of trade between the two countries in order to have a clear understanding of their link.

Graph 5.1.1: Ivorian trade with France



Source: IMF, Direction of Trade Statistics 1960, 1970, 1980, 1987, 1990, 1995, 2000, 2005 and 2007

During the period 1960 and before the Euro was introduced in 2002, trading with France means holding export earnings in French Franc (FF) and paying for imports with FF with no exchange rate. According to Mbet & Niamkey (1994, P 1159), trading outside the zone implies higher exchange costs and since exchange-risk costs outweigh interest payment, this has led to net losses. As a result, we believe, Cote d'Ivoire was tied to trade with France despite the very low export decrease in 1990 (209 million US Dollars), Table 4.1.1. Since then, trade continues to grow and reach a peak in 2004 (export: 1550million US $; import: 1540 million US $). Even today, the trade link between both countries is much stronger as French constitute the centrepart like guarantor between Cote d'Ivoire and other EU member states.

5.1.3 Ghanaian Trade

Since the 1990's, Ghana has introduced extensive reforms by liberalising trade and investment and moving away from agricultural exports. Merchandise exports and imports as a share of GDP have expanded substantially from 18 percent and 29 percent in 1993 to 28 percent and 39 percent of GDP respectively in 1998. Trade is relatively concentrated both in commodities and markets. Primary products, overwhelmingly cocoa and gold, account for most exports. Non-traditional exports including processed food, timber and aluminium products account for 20 percent of exports, up from 3 percent in 1986. Recently, export diversification has slowed down. Most manufactured products including machinery and other inputs are imported to Ghana. Ghana's main trading partner remains the EU, accounting for almost half of total exports, essentially due to trade preference, and imports. Within the EU, Italy has overtaken the UK and Germany as the main export market. Italy, UK and France are the main European sources of imports (WTO, 2001, P 2). The West African region has a potential market of over 200 million people and the Ghana export to this market including CFA zone and Nigeria is growing faster than average and represents over 20 percent of non-traditional exports in 1999. Despite these exports including a significant amount of transhipments, there are a large number of domestically produced goods, which are exported by road to neighbour markets. Export development has been led by private firms producing low-value manufactures (for example plastic and aluminium products) and more recently by foreign investors who see the country as good location to reach regional markets concerning cosmetics and pharmaceuticals because of its political stability and safety.

Unfortunately, Ghana does not have the ability to take full advantage of these regional export opportunities due to the following:

1/ lack of implementation of the ECOWAS trade agreements, which result in discriminatory treatment of Ghana exports;

2/ transport logistics including numerous checkpoints within neighbouring countries;

3/ inefficient import regime particularly regarding duty drawbacks.

Ghana's economy remains vulnerable to external commodity price fluctuations and also to weather conditions. Other internal and external economic imbalances, such as large budget deficit, thus placed extra pressures on the economy which may weaken the government's actions on trade liberalization.

The most important factor contributing to growth has been the shift away since 1983 from an administrative system of economic management to relying more on market forces. Policy reforms have helped to reduce fiscal deficits and inflation, to improve infrastructure services and shift relative prices and incentives towards tradables, particularly exports.

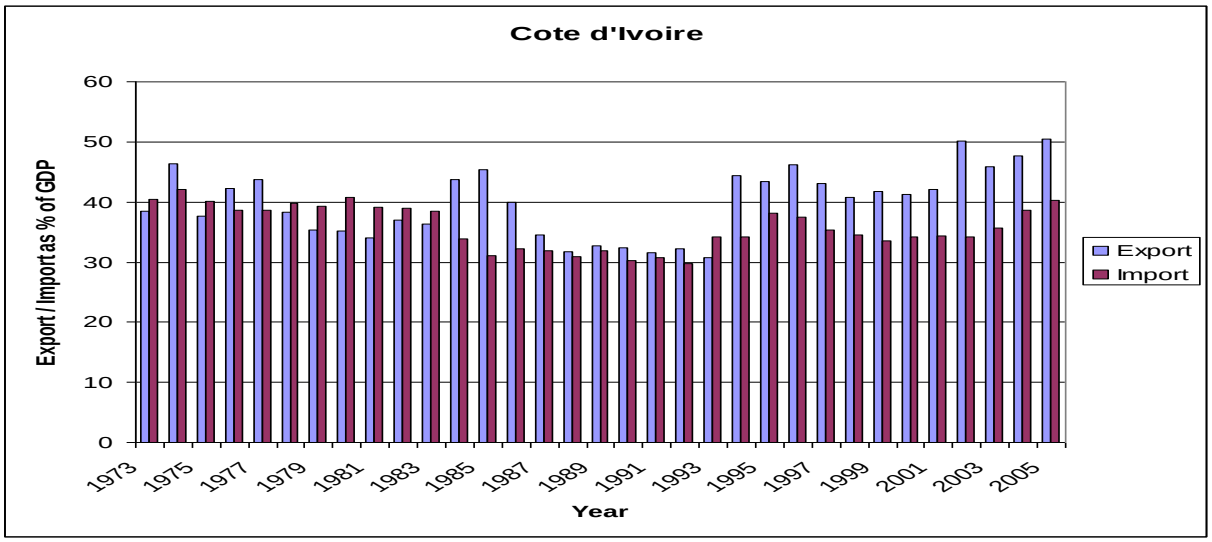
5.2 Data issues

In order to eradicate tariff and non-tariff barriers to their exports, Africa nations need to back up their negotiations with strong data. Unfortunately, data is sometimes not available or fully complete, thereby reducing their chances to succeed at international and multilateral levels. However, the Ivorian figures are available and constantly updated, lifting the country's statistics office to high standard while Ghana has a poor record of collecting data. The IMF staff argued that the Ghanaian national accounts are in need of revision as the existing sector surveys that form the basis for the estimations are outdated. The series have not been revised backwards before 1993 resulting in a discontinuity between the 1975 based series and the current one estimated by IMF staff for earlier years (IMF, May 2003, P 8).

Due the fact that the European Union is main trading partner to the two studied countries, Cote d'Ivoire and Ghana, the section below covers, in general, their exports and imports as well as the trade direction to the European Union and the Rest of the World.

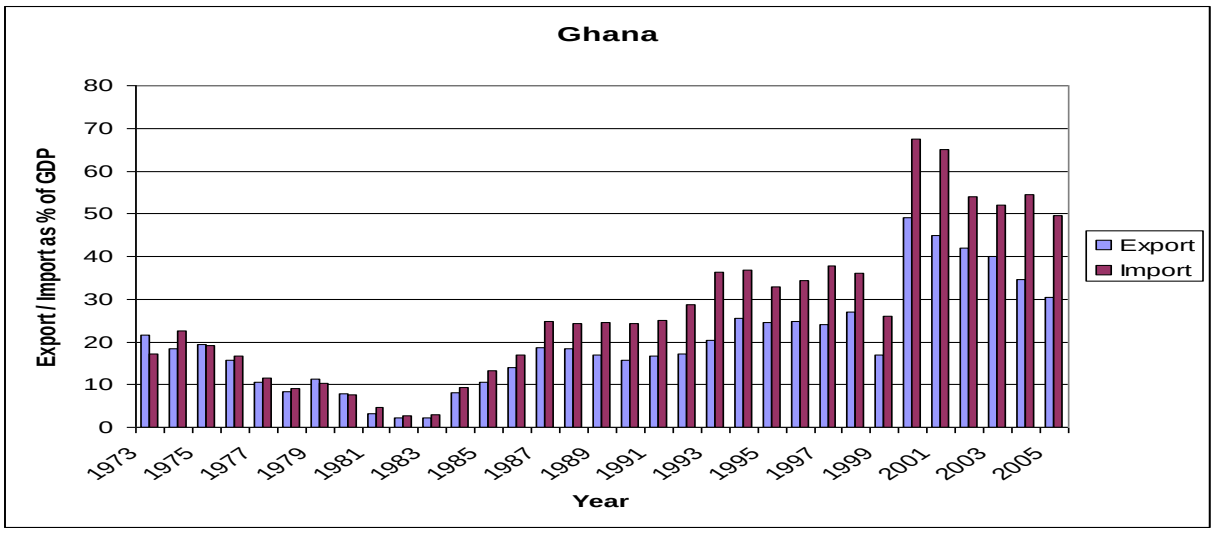
5.3 Analysis of trade: Cote d'Ivoire versus Ghana

Graph 1a: Cote d'Ivoire: Exports and Imports of Goods and Services as percent of GDP



Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006 World Bank, World Development Indicators 2000, 2002, 2004 and 2005

Graph 1b: Ghana: Exports and Imports of Goods and Services as percent of GDP



Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006 World Bank, World Development Indicators 2000, 2002, 2004 and 2005

Trade exports, generally, play a vital role in the development of African countries, especially in Cote d'Ivoire. During the period 1973-2005, exports represented on average 39.9 percent of Ivorian GDP and imports of goods and services 35.9 percent (Graph 1a). While Ghana's exports represented only 20 percent of its GDP and its imports of goods and services 27.2 percent for the same period (Graph 1b).

Both countries were highly dependent on imports of goods and services but the balance between Ivorian exports and imports was significantly positive compared to Ghana's.

Since 1999, Ivorian exports have grown; rising from 41.8 to 50.4 percent of GDP in 1999 – 2005 and have had strong impact on its overall economic growth. Imports grew from 33.6 to 40.3 percent of GDP (Table 1a and 1b in Appendix).

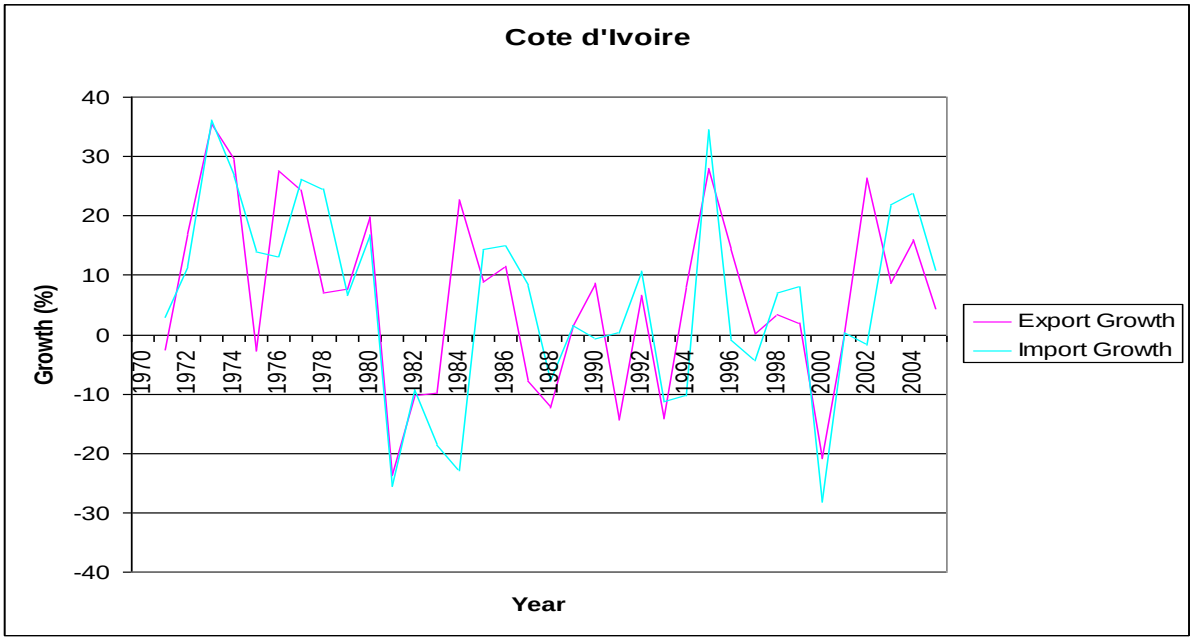
Meanwhile, there has been an increase of both exports and imports as percent of GDP. A great Ivorian trade recovery started after the 1994 currency devaluation and has strengthened since then. The growth has been positive due to the diversification in tradable exports therefore overall sectors reforms. Cote d'Ivoire's export of goods and services as percent of GDP was 44.4 and its import 34.2 in 1994.

The increase of Ivorian export reached 50.4 percent and import 40.3 percent in 2005. Therefore, the country is more dependent on international trade coinciding with the introduction of the Euro and the growing number of the European Union states from 12 in the 1990's to 27 members in 2007.

Despite the political crisis which started in September 2002, the Ivorian government is battling to put its economy back on track. However, for the past five years, the country has been divided in two due to a military coup. Rebels are still using the north of the country as their stronghold. This crisis has deeply affected the economy and social cohesion. According to the OECD (2006, P 231), the causes of this political turmoil lie in poorly controlled immigration, absence of real policy of land management and the country's institutional and democratic governance systems.

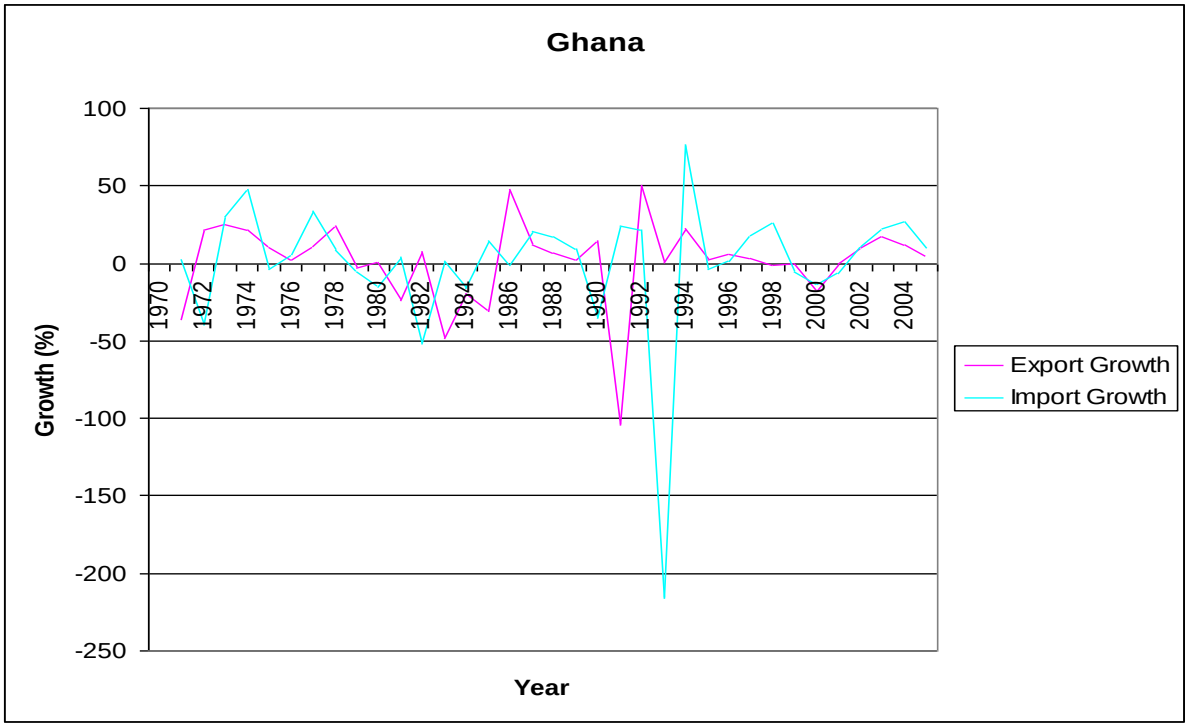
For the same period (1999 – 2005), Ghana's exports of goods and services were 36.8 percent of GDP on average while its imports amounted to 52.6 percent. Ghana is more dependent on the imports of goods and services which have increased sharply, resulting in negative balance between export and import (Graph 1b).

Graph 2a: COTE D'IVOIRE: Exports and Imports of goods and services (Billions of US Dollars) and Trade Growth



Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006

Graph 2b: GHANA: Exports and Imports of goods and services (Billions of US Dollars) and Trade Growth (%)



Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006

Although both countries have strategic locations in West Africa, and have embarked on trade liberalization as well as fiscal and monetary reforms, Cote d'Ivoire has done more to increase the openness of its economy and stimulated export growth and the services

sector. Cote d'Ivoire is more exporting than Ghana resulting, in the study period, in a positive trade balance.

For both Cote d'Ivoire and Ghana, the export and import of goods and services started to increase after 1992. Ivorian exports were 3 billion US Dollar and 7.3 billion respectively in 1992 and 2005 while imports were 2.4 billion and 5.9 billion US Dollar for the same period (Graph 2a). Ghana's export reached 1.2 billion US Dollar in 1992 and 2.3 billion in 2005 while its import was 1.6 billion and 5.8 billion respectively for the same period (Graph 2b).

In 1992-98, average Ivorian export growth was 5.5 percent and its import, 3.2 percent while for the period 1999-2005, the export growth reached 6.5 percent and import 7.1 percent.

Between 1992 and 2005, Ghanaian export growth averaged 11.7 percent and the import growth, -11.1 percent. For the period 1999-2005, its export growth was 3.5 percent and its import growth, 6.2 percent.

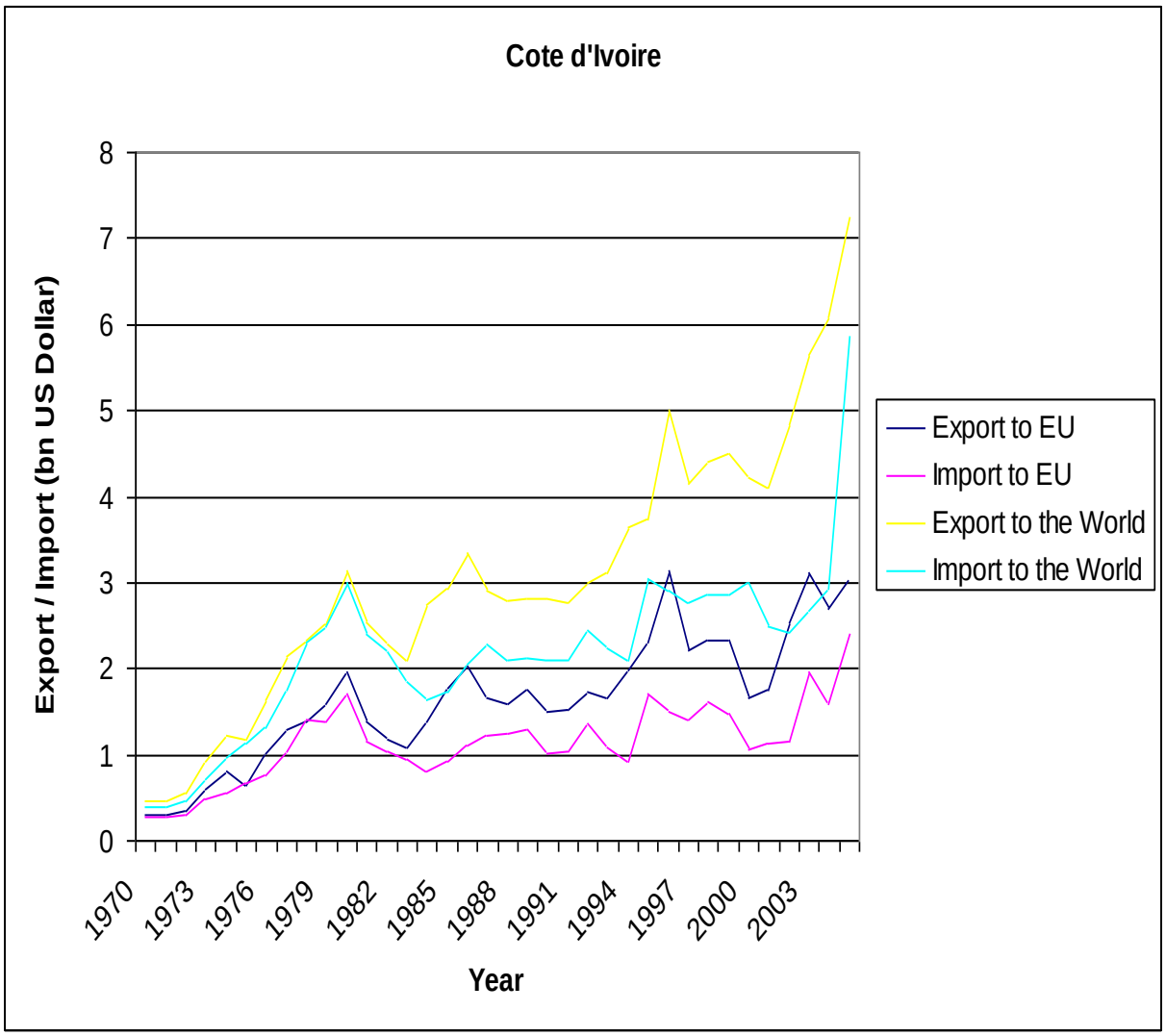
Table 3a: COTE D'IVOIRE Trade with the European Union and the World (Billions of US Dollars)

RCI	Trade to European Union		Total Trade to the World	
YEAR	Exports	Imports	Exports	Imports
1970	0.308	0.277	0.468	0.388
1971	0.297	0.278	0.455	0.399
1972	0.346	0.307	0.545	0.454
1973	0.594	0.476	0.912	0.71
1974	0.803	0.563	1.213	0.966
1975	0.648	0.664	1.187	1.126
1976	1.007	0.77	1.642	1.303
1977	1.292	1.043	2.154	1.748
1978	1.376	1.406	2.324	2.315
1979	1.594	1.375	2.514	2.486
1980	1.953	1.706	3.142	2.99
1981	1.387	1.157	2.536	2.404
1982	1.18	1.033	2.274	2.186
1983	1.076	0.945	2.091	1.848
1984	1.379	0.801	2.752	1.647
1985	1.782	0.927	2.934	1.72
1986	2.038	1.107	3.354	2.055
1987	1.656	1.225	2.898	2.271
1988	1.582	1.251	2.78	2.101
1989	1.747	1.287	2.807	2.111
1990	1.5	1.023	2.813	2.098
1991	1.523	1.029	2.777	2.103
1992	1.73	1.355	3.001	2.446
1993	1.665	1.085	3.109	2.231
1994	1.99	0.928	3.646	2.091
1995	2.311	1.708	3.728	3.038
1996	3.135	1.5	4.996	2.909
1997	2.209	1.401	4.15	2.756
1998	2.318	1.616	4.395	2.86
1999	2.32	1.484	4.486	2.85

2000	1.657	1.051	4.22	2.99
2001	1.745	1.13	4.1	2.48
2002	2.526	1.144	4.83	2.42
2003	3.109	1.956	5.65	2.67
2004	2.688	1.584	6.09	2.93
2005	3.048	2.427	7.251	5.873

Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006.

Graph 3a: COTE D'IVOIRE Trade with the European Union and the World (Billions of US Dollars)



Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006.

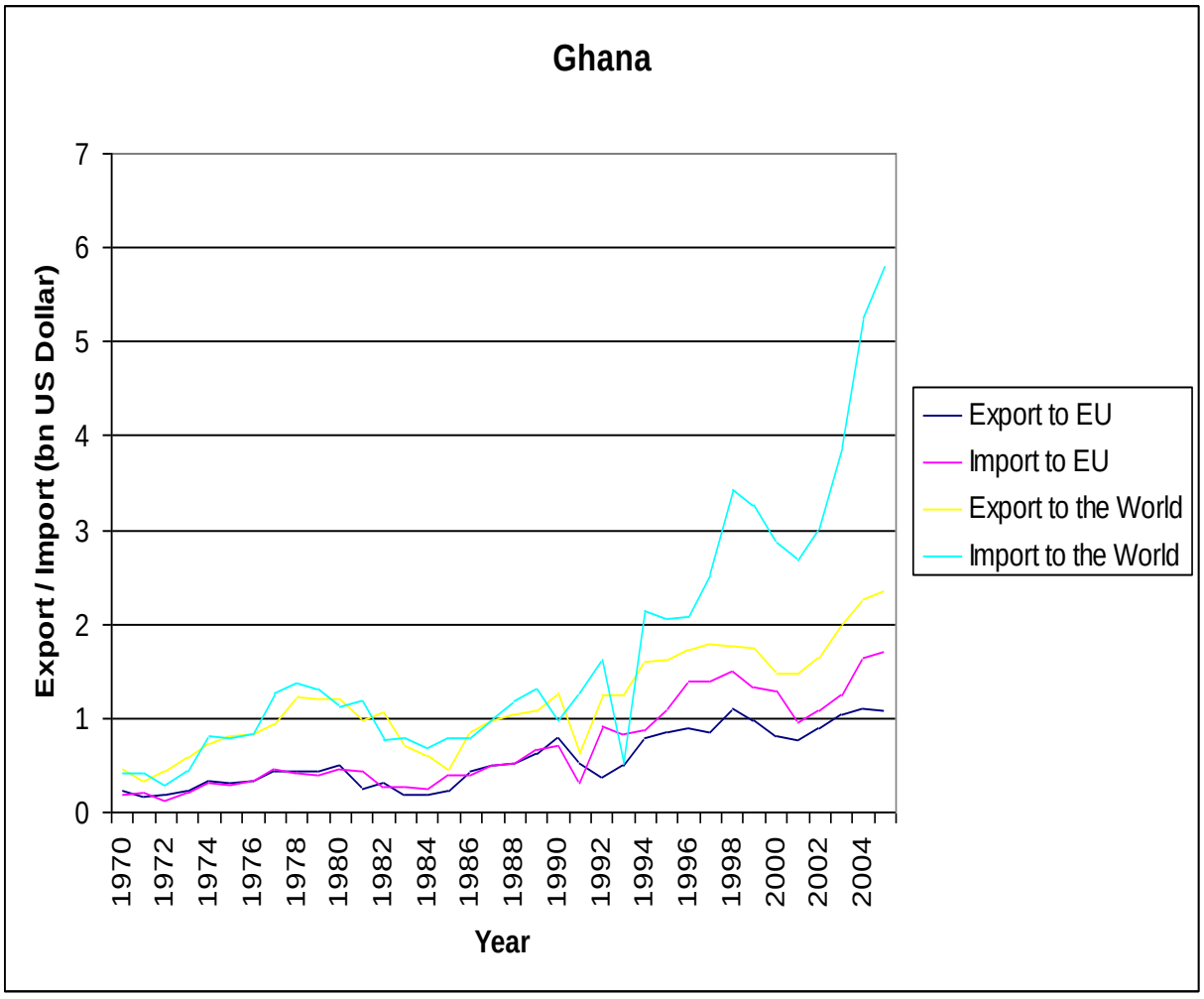
Table 3b: GHANA Trade with the European Union and the World (Billions of US Dollars)

GHANA	Trade to European Union		Total Trade to the World	
YEAR	Exports	Imports	Exports	Imports
1970	0.226	0.191	0.458	0.41
1971	0.172	0.208	0.337	0.418
1972	0.191	0.122	0.429	0.299
1973	0.229	0.199	0.573	0.426
1974	0.327	0.319	0.729	0.818
1975	0.308	0.301	0.807	0.79
1976	0.332	0.336	0.828	0.838
1977	0.427	0.464	0.935	1.262
1978	0.429	0.418	1.234	1.376
1979	0.432	0.387	1.201	1.299
1980	0.491	0.465	1.206	1.129
1981	0.258	0.435	0.973	1.174
1982	0.302	0.265	1.057	0.775
1983	0.19	0.271	0.712	0.787
1984	0.179	0.25	0.595	0.68
1985	0.233	0.401	0.455	0.793
1986	0.443	0.396	0.862	0.782
1987	0.501	0.5	0.976	0.988
1988	0.525	0.51	1.046	1.193
1989	0.621	0.672	1.071	1.308
1990	0.78	0.703	1.258	0.966
1991	0.524	0.305	0.617	1.273
1992	0.371	0.904	1.237	1.614
1993	0.496	0.824	1.24	0.511
1994	0.799	0.882	1.595	2.139
1995	0.856	1.105	1.629	2.053
1996	0.898	1.402	1.723	2.073
1997	0.851	1.402	1.778	2.533
1998	1.095	1.503	1.756	3.421
1999	0.979	1.323	1.754	3.251

2000	0.805	1.282	1.485	2.868
2001	0.777	0.949	1.479	2.684
2002	0.895	1.084	1.65	3.009
2003	1.037	1.245	1.984	3.875
2004	1.11	1.637	2.26	5.265
2005	1.084	1.697	2.349	5.824

Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006.

Graph 3b: GHANA Trade with the European Union and the World (Billions of US Dollars)



Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006

Table 4a: Cote d'Ivoire: Growth of Trade to European Union and the World (%)

RCI	Trade to European Union		Total Trade to the World	
YEAR	Export growth	Import Growth	Export growth	Import growth
1971	-3.7	0.36	-2.86	2.76
1972	14.16	9.45	16.51	12.11
1973	41.75	35.5	40.24	36.06
1974	26.03	15.45	24.81	26.5
1975	-23.92	15.21	-2.19	14.21
1976	35.65	13.77	27.71	13.58
1977	22.06	26.17	23.77	25.46
1978	6.1	25.82	7.31	24.49
1979	13.68	-2.25	7.56	6.88
1980	18.38	19.4	19.99	16.86
1981	-40.81	-47.45	-23.9	-24.38
1982	-17.54	-12	-11.52	-9.97
1983	-9.67	-9.31	-8.75	-18.29
1984	21.97	-17.98	24.02	-12.2
1985	22.62	13.59	6.2	4.24
1986	12.56	16.26	12.52	16.3
1987	-23.07	9.63	-15.73	9.51
1988	-4.68	2.08	-4.24	-8.09
1989	9.44	2.8	0.96	0.47
1990	-16.47	-25.81	0.21	-0.62
1991	1.51	0.58	-1.3	0.24
1992	11.97	24.06	7.46	14.02
1993	-3.9	-24.88	3.47	-9.64
1994	16.33	-16.92	14.73	-6.7
1995	13.89	45.67	2.2	31.17
1996	26.28	-13.87	25.38	-4.43
1997	-41.92	-7.07	-20.39	-5.55
1998	4.7	13.3	5.57	3.64
1999	0.09	-8.89	2.03	-0.35
2000	-40.01	-41.2	-6.3	4.68

2001	5.04	6.99	-2.93	-20.56
2002	30.92	1.22	15.11	-2.48
2003	18.75	41.51	14.51	9.36
2004	-15.66	-23.48	7.22	8.87
2005	11.81	34.73	16.01	50.11

Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006.

Table 4b: Ghana: Growth of Trade to European Union and the World (%)

Ghana	Trade to European Union		Total Trade To the World	
YEAR	Export Growth	Import growth	Export growth	Import growth
1970				
1971	-31.4	8.17	-35.91	1.91
1972	9.95	-70.49	21.45	-39.8
1973	16.59	38.69	25.13	29.81
1974	29.97	37.62	21.4	47.92
1975	-6.17	-5.98	9.67	-3.54
1976	7.23	10.42	2.54	5.73
1977	22.25	27.59	11.44	33.6
1978	0.47	-11	24.23	8.28
1979	0.69	-8.01	-2.75	-5.93
1980	12.02	16.77	0.41	-15.06
1981	-90.31	-6.9	-23.95	3.83
1982	14.57	-64.15	7.95	-51.48
1983	-58.95	2.21	-48.46	1.52
1984	-6.15	-8.4	-19.66	-15.74
1985	23.18	37.66	-30.77	14.25
1986	47.4	-1.26	47.22	-1.41
1987	11.58	20.8	11.68	20.85
1988	4.57	1.96	6.69	17.18
1989	15.46	24.11	2.33	8.79
1990	20.38	4.41	14.86	-35.4
1991	-48.85	-130.49	-103.89	24.12
1992	-41.24	66.26	50.12	21.13

1993	25.2	-9.71	0.24	-215.85
1994	37.92	6.58	22.26	76.11
1995	6.66	20.18	2.09	-4.19
1996	4.68	21.18	5.46	0.96
1997	-5.52	0	3.09	18.16
1998	22.28	6.72	-1.25	25.96
1999	-11.85	-13.61	-0.11	-5.23
2000	-21.61	-3.2	-18.11	-13.35
2001	-3.6	-35.09	-0.41	-6.86
2002	13.18	12.45	10.36	10.8
2003	13.69	12.93	16.83	22.35
2004	6.58	23.95	12.21	26.4
2005	-2.4	3.54	3.79	9.6

Source: IMF, Direction of Trade Statistics Yearbooks 1969-73, 1980, 1982, 1983, 1984, 1985, 1990, 1995, 1997, 2000, 2002, 2005 and Quarterly September 2006.

Both Cote d'Ivoire and Ghana trade heavily with the European Union. Ivorian trade exports to EU accounted an average for 1.6 billions US Dollar and its imports, 1.2 billion US Dollar over the period 1970 - 2005 while Ghana exports to the EU accounted an average for 0.6 billions and its imports, 0.7 billion US Dollar for the same period (Table & Graph 3a & 3b). For the same period, on average, the Ivorian export growth with the EU reached 4 percent and its import growth, 3.4 percent while the Ghanaian export growth was 1.1 percent and its import growth, 1 percent (Table & Graph 4a & 4b). Cote d'Ivoire's trade is nearly double that of Ghana, showing the strong link between these West Africa Monetary Union states including Cote d'Ivoire and its EU partners. Ivorian exports to the EU have continued to increase, accounting for 2.3 billion US Dollar in 1999 and reaching 3.048 billion US Dollar in 2005 with slight decreases in 2000 and 2001, due to the country's political situation (Table 3a). Cote d'Ivoire has a strong import policy which consisted of monitoring imports, leading to positive trade balance thorough the study period. According to the Economist Intelligence Unit (2006), membership of the Franc Zone helped to contain inflationary pressures, owing to the government's firmness on public sector wages and the strength of the Euro and thus the CFA Franc against the Dollar. Moreover, in recent years, the country's export structure has changed with the share of cocoa exports falling as a result of increased petroleum production and crude oil exports. Oil exports are estimated to have exceeded cocoa exports in 2005. This reflects both increased oil exports and high international oil prices, creating large trade surplus (EIU, 2006, P 44). The assertion has been confirmed by OECD (2003, P 116) that the European Union is still the strongest partner of Cote d'Ivoire taking 45.1 percent and 46.3 percent of exports respectively in 2000 and 2001. However, there were considerable changes in its exports destinations within the EU. For example, France is buying fewer Ivorian exports with 13.9 percent in 2001 compared with 15.2 percent in 2000 and the Netherlands more (14.1 percent compared with 9.8 percent in 2000). This is due to the fact that the country is much more open to competition, with a strong policy and commitment to diversify the country's trade partners. With the introduction of the Euro, other non-French but EU firms such as Cargill, ADM and Callebault are dominating the cocoa processing export

being better at handling cocoa bulk than French firms and also improving efficiency and cutting transport costs. The close trade involvement with the European Union has helped Ivorian overall growth. Conversely, Ghana imports are still high resulting in a negative trade balance. The decline of Ghana's exports is due largely to under-performance of both cocoa and gold, the major export earners of the country during the study period from 1970 to 2005 (Table 3b). According the World Trade Organisation (2001, P 2), the Ghanaian economy remained relatively weak and vulnerable to external commodity price movements and other shocks such as weather conditions. The country is still heavily dependent on agriculture, accounting for 40 percent of its GDP. Although Ghana's main export market is the Netherlands, where much of its cocoa is processed, followed by the UK and the US, the country cannot strengthen its trade links with the EU as had Cote d'Ivoire. However, these trade flows are declining as a proportion of Ghana's overall trade compared to newer trading partners such as Nigeria, (supplying the majority of the country's oil) and China with textile as well as capital goods used in areas of construction and infrastructure development in 2005 (EIU, 2006, P 45).

5.4 Conclusion

From the direction of trade statistics analysed above, there is strong evidence that membership of the CFA Zone and now the link to the Euro have helped expand Cote d'Ivoire's trade with the European Union in comparison with Ghana. The EU remains the strongest partner of Cote d'Ivoire and the Ivorian export destinations have diversified within the European Union, opening up competition among partners. Strong trade involvement with the EU has helped Ivorian overall growth despite the military and political instability which has been a heavy burden on growth and economic policies, and even though the partition of the country disrupted trade within Cote d'Ivoire itself and diminished its role as a regional hub. The external current account held up, thanks to an increase in oil exports since 2002 and overall favourable terms of trade (IMF, July 2007, P 8).

Nevertheless, according to Okonedo (2003, P 3), trade with the European Union is currently between 40 and 50 percent of total goods trade for Africa with countries in North Africa and CFA Franc Zone at the higher end of this range. The share of Cote d'Ivoire in total world exports has been generally stable over the period 1994–2006. The country represents two-thirds of WAEMU exports. Also, the share of the EU in the country's trade remains high but it is falling more sharply for exports than for imports (IMF, July 2007, P 20). Furthermore, Zafar (2005, P 5) argued that the objective of the peg system is to maintain macroeconomic stability in CFA zone as well as strengthen trade and financial flows between Europe and the two zones by creating an environment with a stable exchange rate. The Ghanaian economy has performed well in recent years due to good cocoa harvests, discovery of two new gold mines and strong activities in construction and services responding to the improved business environment. Despite its recent performance, Ghana's trade links with the EU are still not as strong as those of Cote d'Ivoire.

6.0 METHODOLOGY AND SURVEY DESIGN

The objective of the survey on Ivorian and Ghanaian firms is to analyse the impact of the exchange rate regime on company performance in West Africa, how it affects the different transactions between regions and how important a monetary union for countries is. The key hypothesis being addressed is the fact that Cote d'Ivoire's membership of the Franc zone has helped Ivorian firms' expansion and consequently its overall economic growth. The theoretical aspect of the survey is covered in Chapter 5 which assesses trade between Cote d'Ivoire-the Rest of the World and Ghana-the Rest of the World including the European Union. Chapters 6, 7 and 8 analyse empirically, the impact of exchange rate regime on businesses behaviour in Cote d'Ivoire and Ghana.

6.1 Definition

Modern statistics is a theory of information with inference as its objective, so the set of measurements is the population while the subset of measurements selected is the sample. Information from sample surveys affects almost every aspect of our daily lives. Such information determines government policies on, for example, the control of the economy and the promotion of social programmes. The common methods of data collection in sample surveys are personal and telephone interviews.

a) Personal interviews

This method of data gathering is effective but costly. Its advantage is the fact that people will usually respond when confronted in person. Also, the interviewer can note specific reactions and eliminate misunderstandings about the questions asked.

b) Telephone interviews

It is a widely used method, less expensive and avoiding travel expenses. A general problem is the establishment of a sample that corresponds to the population, though this is less of a problem with business enterprises.

c) Self-administered questionnaires

It is a useful method of data collection, which may be carefully constructed in order to encourage respondents' participation. The advantage of this method is that a savings can be made from the survey cost and can be combined with telephone or personal interviews if the rate of responses is low.

d) Direct observation

Appointing an observer or electronic counting equipment, but using an observer can also be a source of errors in observation. Direct observation is also used in surveys that do not involve measurements on people, which could be costly.

Moreover, the sample size will have to be defined carefully to avoid waste because surveys cost money. If the sample is too large, time, effort and talent are wasted. Obviously, if the sample is too small, sampling errors are huge. Thereby, the number of observations needed to estimate the population should take into account errors of estimation (Scheaffer & Mendenhall, 1990, P 48-49).

6.1.1 Enterprises with fixed exchange rate – Cote d'Ivoire

According to Berrospide (2006, P 30), under fixed exchange rates, firms borrow extensively in foreign currency and do not hedge because they have no incentives to do so given that government provides a type of free risk management.

The Ivorian economy faced a major challenge, the shift from a state controlled economy to a more decentralised economy led by the private sector. As a result, the private sector was required to develop and be more imaginative to take over most of the activities sold by the state. Unfortunately, due to a weak domestic private sector, the move toward more liberalisation and privatisation led to an increased foreign control of the economy. A survey conducted by Bohoun, McKay and Kouassy (1995, P 10-11) showed that in the wake of the devaluation, exporting firms were mostly foreign (54 percent of the total) with a very high proportion of French firms (28.4 percent of the total).

6.1.2 Businesses with flexible exchange rate – Ghana

Berrospide (2006, P 30) argued that under a flexible exchange rate regime, when the probability of currency depreciation is moderate and hedging is affordable. Firms use currency forwards to hedge their exchange rate risks exposure and reduce the probability of financial default. Hedging works as collateral allowing hedged firms to expand their capacity to access foreign capital markets.

Empirical research reveals that the majority of Ghanaian firms exhibit a low level use of hedging techniques in managing their foreign exchange risks due to a low level of education and volatile nature of the economy (Abor, 2005, P 311)

6.2 Survey design

6.2.1 Business environment in Cote d'Ivoire and Ghana

The Ivorian economy is largely market-based and depends heavily on the agricultural sector. According to OECD/AFDB (2008), 66 percent of the Ivorian people are engaged in some form of agricultural activities which contribute 70 percent of the country's export revenue. Cote d'Ivoire has been for years an island of tranquillity in West Africa, a safe country where refugees around the world could flee without fear of persecution. The name of its commercial capital, Abidjan, was synonymous with good life. Since 2002, the country has suffered from the social and economic consequences of conflict which affected neighbouring countries. That instability has seriously shaken its economy and the confidence of investors. Many foreign business owners fled the country.

While Ghana has relatively diverse and rich natural resource-based minerals, agriculture remains a mainstay of the economy, accounting for more than one-third of GDP and about 55 percent of formal employment. The country's long term economic performance in the early independence years was closely associated with cycles of political instability and shifts in policy regime including changes in strategies between state-led and market-led development, hostile to dynamic private sector investments, entrepreneurship and growth. Since the introduction of the Economic Recovery Program (ERP) from the World Bank – IMF in the 1980s and the advent of the multiparty democracy, in the 1990s, Ghana has entered a period of relative political stability and gradually improving policy and growth performance.

Ghana economic growth became more broad-based due to its government's aim to promote the private sector and make its term a 'Golden Age of Business'. Cote d'Ivoire is ranked 155 out of 178 countries in doing business while Ghana is ranked 87 of 178 in 2008 according the World Bank, World Business Survey. Ghana is celebrated as major reformer in Sub-Saharan Africa for the second year running; continue to increase the efficiency of its public services (World Bank, 2007).

a) Risks encountered by firms

Exchange rate risks discourage firms from engaging in international trade and West African currency markets are less developed and less competitive. The more unpredictable are exchange rates, the more risky are foreign transactions and the less likely are companies to engage in foreign trade and investment. Although the elimination of national currencies is leading to gain in economic efficiencies, Gagnon (1992) argued that a currency or monetary union promotes trade by eliminating exchange rate volatility but no firm empirical evidence shows that exchange rate volatility has a significant negative effect on trade flows. It is clear that exchange rates matter but their effect on individual firms and hence the impact of different exchange rate regimes on investment and living standards in different locations appears to be heterogeneous and to vary over time. Moreover, the impact of exchange rate movements on firms located only in a single country will vary according to the extent of their international exposure and factors such as the share of total revenues derived from exporting, the ratio of imported inputs in production and the extent of foreign competition in the home market. Also, transaction costs are lower for the country with the fixed exchange rate regime, and this further encourages trade and investment compared to the country with a floating exchange rate regime. Therefore, it is better for West African firms to convert their currency to one instead of 27 currencies when trading with the European Union, thereby reducing transaction costs. This is a real benefit for both Cote d'Ivoire and Ghana.

In Africa, in general, including Cote d'Ivoire and Ghana, the key problems that undermine any operations are excessive documentary requirements, outdated official procedures, insufficient use of automated systems, lack of transparency, lack of predictability and consistency in customs activities and lack of modernization of and cooperation among customs and other governmental agencies. As a result of poor

quality but expensive telecommunication services, businesses in Africa are less competitive as they lack up-to-date information on prices of goods and services.

The most common and popular method of payment is the documentary credit payment system. However, this practice is characterized by confused and complex procedures. The basis of the system is a series of checks in which the progress of goods towards the buyer is pinned to the progress of payment to the seller. The process is time consuming, requires physical movement of documents between different banking institutions in two different countries and is not well understood and badly managed by many users. In addition, the system is open to fraud. In Cote d'Ivoire, 75 percent of companies surveyed are foreign based firms which have facilities and structures to cope with payments.

b) Access to capital markets

Given better access to the EU capital market than before, Ivorian businesses need to play their part in addressing financing issues like raise capital in Europe. In both Ghana and Cote d'Ivoire, entrepreneurs are afraid of incurring significant debt finance due to their operating practices such as inaccessible company data. Also, they are reluctant to raise equity finance either through ignorance of the products available or because it involves ceding a degree of control over their business. These businesses need help in accessing the most appropriate form of finance for their needs. Many growing businesses have to export in order to expand output, increase productivity and spread risks. Through exporting, they are exposed to tougher competition and more demanding consumers, which in turn improve their competitiveness. Contacts made through overseas trade also help firms tap into new ideas and knowledge of markets and marketing. Achieving positive results means being clear about what firms want to get, shaping their agenda and working closely with international partners. However, there are increasingly a growing number of microfinance institutions which provide financial services to small and middle-size enterprises. Access to credit of these SMEs is one of the greatest barriers to their operations and growth. According to the United Nations Capital Development Fund, where good-quality credit information is available and legal rights are stronger, more credit is extended. Benefits flow beyond those gaining access to credit. With better-functioning credit markets, unemployment is lower and women and low-income people benefit the most.

c) Labor and skills

In both Cote d'Ivoire and Ghana, government and businesses view skills development as an important factor in the drive to enhance productivity, stimulate economic competitiveness and raise people out of poverty. According to the World Bank (2004), there is a trade-off between the achievement of skills development with technical and vocational education and training and providing universal basic education both are important to economic growth and poverty reduction. Unfortunately, these governments have limited resources to meet these goals. Also, in these two countries, the informal sector comes to the forefront in view of the growing scarcity of the formal wage employment. This informal sector becomes a driving force but needs to be structured.

d) Wages and income distribution

In Cote d'Ivoire and Ghana, it is very difficult to compare rural incomes with urban incomes. Rural revenue is coming from the production of agricultural goods rather than from the sale of labor. Agricultural workers do not control the commercial and industrialization process after production. By contrast, urban workers have taxed incomes but they often benefit from supplementary non-market sources of income such as subsidized housing, access to credit on relatively favorable terms.

e) Infrastructures

Cote d'Ivoire has an outstanding infrastructure where there is an excellent network of roads, good telecommunication services including a public data communications network, mobile phones and internet access. Also, there are two very active ports. Abidjan's is the most modern in West Africa and the largest between Casablanca, Morocco and Cape Town, South Africa.

There are good schools by regional standards and modern real estate development but unfortunately, due to its recent military-political crisis, the country needs heavy investment on economic infrastructures to sustain growth.

Its three airports serve 25 international airline companies and Abidjan airport is the hub in the region.

Ghana is determined to be the gateway to West Africa by creating maritime and airports hubs and opening up trade for its landlocked neighbours which are already attracting more businesses. Before liberalising the entire economy in 1985, parts of communities were inaccessible by vehicle due to the poor state access roads. Now with the participation of the private sector in infrastructure building, Ghana is getting a good access to roads and an active telecommunication sector. The objective is to facilitate both intra regional trade and to open up rural areas for investment, productivity enhancement and job creation, introduce or deepen competition and create an attractive environment for the private sector to spearhead the country's development. According to the Government, road transport is very important to the Ghanaian economy. It is estimated that road transport accounts for 94 percent of freight ton-miles and about 97 percent of passenger miles in the country. Most major international carriers fly regularly to Kotoka International Airport (KIA) in Accra, the main entry point to Ghana by air. According to Bogetic and Sanogo (2005, P 4), infrastructure investments facilitate private investments by lowering product costs and opening new market thereby creating new profit opportunities. Roads reduce transportation costs. Ports reduce transaction costs and facilitate trade, exposing local firms to the innovation forces of international competition. From this point, it is very important for Cote d'Ivoire and Ghana to invest heavily in infrastructure using the private sector to reach a sustainable economic development.

f) Market structure

According to Scherer in Schwimmer (1979, P 683), market structure is basically an indication of the degree of concentration within a specific industrial market, which varies between the extremes of monopoly or monopsony and perfect competition. Thus specified, it is related to supply and demand conditions and to pricing, production and innovation strategies to provide an organizational model of the relevant industry. In both Cote d'Ivoire and Ghana, large corporations have embarked on extreme monopoly without using market forces. They are influencing the formulation and implementation of economic policies so creating states of non competition. On one hand, Cote d'Ivoire is considered as a capitalist model in Africa, the institutional setting for free markets and competition has never been sufficient, especially in the vital cocoa sector where there is huge uncertainty over

economic fundamentals and their management as well as regulatory institutions. Since 2002, the Ivorian business community has become increasingly frustrated with the political process and it has publicly complained about the government's private sector policies such as heavy tax regimes or road blocks. Due to that instability, the informal sector has gained in importance as smuggling and other illicit activities continue to grow. The concept of monopolies and oligopolies is not regulated consistently. As a result, the heart of the economy such as electricity, water, fixed-line telephones, major commercial banks and transport are all French-owned companies that hold de facto monopolies. On the other hand, for Ghana, opening up an economy to trade will benefit the more abundant factor because this factor will be relatively cheap and will increase demand for this factor overall. Since unskilled labor is the abundant factor in poor countries, opening up will benefit unskilled labor and, hence, the poor. But the theory breaks down when local product and factor markets are segmented, either because of poor infrastructure or because of the local power of middlemen and moneylenders. The black market is more developed in Ghana than Cote d'Ivoire. It occurs when governments try to restrict capital flows by imposing various types of restrictions including licensing, waiting time and various taxes. These restrictions create excess demand for foreign currencies that cannot be managed by the official market and thus create an unofficial (black) market. The size of the black market premium indicates the extent of exchange rate mismanagement and signals the need for adjustments (devaluation).

Table 6.2.1f: black market premium

Country	Premium
Cote d'Ivoire	3.3
Ghana	310.2
Nigeria	88.0
South Africa	4.5
Malaysia	1.1

Dollar based % of the official rate

(Khalifa, 2004, P 486)

g) Level of transparency

A minimum of transparency is needed in these countries as corruption is the consequence of bureaucratic burden due to the fact that civil servants are expecting

to get so-called tips to deal with any dossiers. As a result, the public administration is very slow, inhibiting the expansion of operating firms in both Cote d'Ivoire and Ghana. The extended family places significant pressure on civil servants, forcing them to engage in corruption and nepotistic practices. They use their public positions to generate benefit for themselves, their families, and their ethnic and social groups. Also, these practices occur with the changing face of the administration due to rebellion or 'coup d'etat'. Companies view corruption as an obstacle to invest in these countries and it has a great impact on judicial proceedings, contracts award, customs and tax issues. Businesses have reported corruption at every level of the civil service including stamps, copies and an official act to register an activity and vehicle, all carry a supplemental commission. Some investors especially in Cote d'Ivoire have raised specific concerns about the rule of law and the government's ability to provide equal protection under the law, poor record in enforcing the rule of law. While in Ghana, taxes are not overly burdensome but onerous bureaucratic hurdles and red tapes still complicate entrepreneurial activities.

6.2.2 The design

Similar survey to our study was analysed by Broz et al. (2007, P 3). The authors used firm-level data from the World Bank's World Business Environment Survey (WBES) on micro-level, cross-national evidence on sectoral attitudes over the exchange rate. They found systematic patterns linking sectors of economic activity to exchange rate policy position. Owners and managers of firms producing tradable goods prefer greater stability of the exchange rate. In countries with a floating currency, manufacturers are more likely to report that the exchange rate causes problems for their business. The difference between Broz et al.'s survey and ours on the impact of exchange rate regime on the success of West African firms is based on the method used to implement the questionnaire.

As stated earlier, one of the most common methods of data collection surveys, the telephone interviews, was intensively used because it was easier and less costly and less time consuming. The contribution made to the survey is the fact that background information is gathered before conducting the interview. That is a very important element in the whole design process which cut the interview duration. The researcher spent a shorter period of time completing the questionnaire while he was

on the telephone with the interviewee. The method is believed to be unique as the researcher never came across, in the literature on methodology, this way of conducting a survey in this field. This deemed to be the effective way of collecting data in Cote d'Ivoire and Ghana due the rapid growth of the telecommunication sector. Chelariu et al. (2002, P 459) collected some data on 109 of 200 Ivorian firms through a field survey. Questionnaires with completion instruction were hand delivered to target managers. After two weeks, the questionnaires were collected by field assistants. Individuals who had not returned the questionnaires were reminded to do so by telephone.

Other authors such as Fening et al. (2008, P 701) administered their questionnaire through the face-to-face method of collecting data in Ghana. It is becoming difficult to use such technique to conduct interviews due to low response rate. McLean and Blackie (2004, P 244) argued that business and management researchers find increasingly difficult to achieve an acceptable response rate to face-to-face questionnaire.

The researcher travelled to Cote d'Ivoire three times and once to Ghana but this generated a very low response rate therefore it had been decided to part-collecting information and part-conducting telephone interviews. Sturges and Hanrahan (2004, P 108 – 110) concluded that telephone interviews can be used successfully in qualitative as well as quantitative research. It is an acceptable and valuable method of data collection and is successful in obtaining completed interviews.

In sum, the survey was organized into two parts. The first focused on collecting strong background information on firms and the second sought directors, executives and managers' opinion on their different transactions, exchange rate regimes and monetary union in general.

The downside of the method is that the respondent may not understand the question so his answer may not be accurate. Also, the researcher could not verify the identity of the person he was talking to or who, he said to be.

6.2.3 Selection

Firms were selected, purely based on their involvement at international level. A panel of about 250 firms of which 100 responded (57 Ivorian against 43 Ghanaian)

was picked randomly across the three activity sectors (primary, industry and services). The researcher had the opportunity to make appropriate selection due to the primary data collected on enterprises. Also, the background information was focused on different transactions with the companies' European counterparts and trade links between the countries involved.

The survey comprising 37 questions was administered to Business Managers and/or Directors, Human Resources Executives, Communication and Administration and Finance Officials in Cote d'Ivoire and Ghana. The survey was structured into five parts. Section 1 was based on the respondent's organization – basic details. Part 2 covered markets and/or market forces in which the firm operates while part 3 focused on its financial details. Section 4 was about Ivorian and Ghanaian firms' risks management and part 5 discussed its foreign exchange.

Applying background research and telephone interview, we look at individual responses to the fundamental question which is: How exchange rate regime affects Ivorian and Ghanaian firms' success? How the monetary regime affects business transactions between West Africa and the Rest of the World, in general.

Following the high level of information collected through the implementation of the survey, SPSS as well as the common formulae are the appropriate tools which are used to analyse the data gathered in Cote d'Ivoire and Ghana. Most of the SPSS tools and formulae were used such as frequency, cross-tabulation, chi-square, correlation, comparative descriptive statistics and difference of means to evaluate the different variables and their interactions.

Respondents were asked to indicate their position using the five-point Likert scale, 1 representing strongly disagree to 5 representing strongly agree or the following ordered scales: 1= "No benefit", 2= "Some benefits", 3= "Moderate benefit", 4= "Important", 5= "Very important" or on ticked box scale: 1= "One box or more and 0= "Clear box".

6.2.4 Firms classification

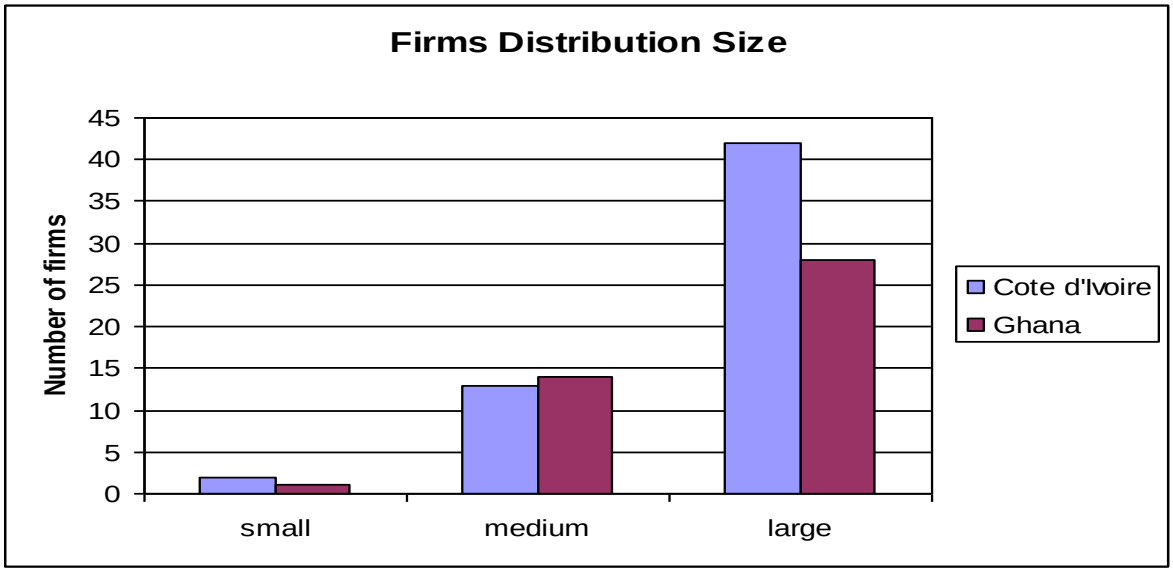
Business sectors	Agriculture	Industry	Services
COTE D'IVOIRE	1. Delbau 2. IPN 3. Ivoire Industrie 4. SAPH 5. SAT 6. SIFCA 7. SOGB 8. Uniriz	1. ABB-CI 2. Blohorn 3. Carnaud Metalbox-CI 4. Central Azito 5. Challenger-Wrangler 6. Coca-cola CI 7. Colgate-Palmolive CI 8. Cosmivoire 9. Cotiplast 10. Elf oil CI 11. Filivoire SARL 12. Filtisac 13. Gestoci 14. Gonfreville 15. Hoechst 16. Hydrochem-CI 17. Ivoire Coton 18. Nestle-CI 19. Palm CI 20. Petroci 21. SACO 22. SETAO 23. Shell-Ci 24. SICOR 25. SIR 26. SITAB 27. SIVOP 28. SMB 29. SN Chocodi 30. Socimat 31. Solibra 32. Sotaci 33. Sucaf CI 34. Sucrivoire 35. Trituraf 36. Uniwax 37. Utexi 38. Wasteel	1. AJ Seward CI 2. Bernabe CI 3. CFAO CI 4. Chevron West Africa 5. Chimtec 6. Flutec Brossette 7. Jean Abile Gal CI 8. Pride Petroleum 9. Saga CI 10. SICC 11. SIDAI
Total Ivorian Firms	(8)	(38)	(11)

GHANA	1. Agro Tropics Ltd 2. GAFCO	1. African Explosives 2. Air Liquid Gh. Ltd 3. Akuaba Furniture 4. Ashanti Goldfield 5. Concrete Production Gh 6. Garko Farm & Co. 7. DKC Group of Companies 8. Enerst Chemists Ltd 9. Fan Milk Ltd 10. Ghana Breweries Ltd 11. Ghana Cylinder Co. 12. Ghana National Petroleum 13. Gold Coast Resource 14. Interplast Ltd 15. Lagray Chemical Co. 16. Nexans Kabelmetal 17. Omanhene 18. Pipes & Plastics 19. Portem Cocoa Processing 20. Qualiplast Gh Ltd 21. Resinex 22. Steeledale Gh Ltd 23. Unichem Gh Ltd 24. Wilkins Engeering Ghana 25. Wire Weaving Industry 26. Yekans Intl. Ghana	1. Askia Supply & Services 2. Dapeg International 3. De Jong Ltd 4. GNPA 5. Gold Business Co. 6. Jokans Industrial Chemical 7. Leman Commodities 8. Magneto 9. Multitech Services 10. Network Computer 11. Process & Plant Gh 12. Taysec 13. Tractor & Equipment 14. Troncorp Communications 15. Wienco Ltd.
Total Ghanaian Firms	(2)	(26)	(15)

Respondent rate is 40 percent which is a very good rate for a survey based on African firms that are not willing to disclose their data. In sum, the telephone interview combined with primary background information is very useful and practical. The important issue is the fact that the researcher recorded accurately the interviewees' responses.

6.2.5 Size Distribution

Firms have been chosen randomly therefore it is difficult to comment on firms' representativeness but essential for further analysis in the following chapters



Source: Survey on the success of Ivorian and Ghanaian firms dealing operating internationally.

They have been selected across the three sectors of activity such as agriculture, manufacturing and services sectors. We focused our attention on formal sector firms with international operations. These firms prosper, invest, export and adopt new technologies. Thus, Van Biesebroeck (2005, P 546) states that in Africa, the largest and most productive firms display the highest growth rates and contribute disproportionately to aggregate growth. This leads to divergence between firms at the top and bottom of the distribution. Small firms rarely reach the top of the size and productivity distribution.

6.3 Implementation of the survey

6.3.1 Dates

I spent three months in 2001 and nearly two years (2003 – 2004) working in the field to implement the survey due to the fact that in Africa, nothing is straightforward. You have to beg people about the importance of your research and a survey is absolutely vital. Connections were used to convince or pursue managers and directors to fill the questionnaires in.

6.3.2 Problems

It is very difficult to conduct and implement a survey in Africa. Strangely, no one is available to discuss company figures and strategic planning. I believe they are not willing to provide the researcher with information despite a letter of introduction brought from his University.

In some cases, especially in Cote d'Ivoire, I used connections and networks to get the data I needed. Often, I presented myself as a Research Officer who was conducting a survey on behalf of Westminster University, London.

For others, I conducted telephone interviews to get them to fill the questionnaires in. Before conducting any interviews, background information on firms is gathered. This method is believed to be appropriate and effective in implementing the survey.

In Ghana, the telephone interview was very useful and adequate as I do not have any connections whatsoever in the country. The only person I know in Accra works for the United Nations High Commissioner for Refugees.

The lesson learnt from conducting a survey on African firms is to emphasize the benefits of the study to their business and the promise to share a copy of the summary results with respondent. More importantly, maybe, I should have promised using the University of Westminster networks to support their operations in the UK.

6.3.3 Response

I believe I received correct and accurate answers to my questionnaire. I mostly used telephone interviews to get the information I needed. Before approaching a company, I researched its background, current affairs and its perspectives for the future. With this strong knowledge on the firm, the different telephone conversations were highly interesting and much more focused. Therefore this saved the respondent's time, the researcher's time and was less costly. As a result, the various and different respondents did appreciate my methodology. They were much more open to give me concise and consistent information. All interviews were animated with laughs and courteous. In the end, I did myself enjoy implementing my survey.

7.0 RESULTS

This section covers the analysis of the survey using comparative descriptive statistics and difference of means for both Cote d'Ivoire and Ghana. Our focus will be on variables which are statistically significant. As described in Chapter 6, our survey involved questionnaire designed to encourage respondent-firms to share as much information as possible in an unconstrained manner.

7.1 Comparative Descriptive Statistics: Table

Table 7.1 (Appendix 8) presents the descriptive statistics from the surveys of Cote d'Ivoire and Ghana.

Given the importance of the Franc zone for the Ivorian firm's expansion and consequently, the country's overall economic growth, mean and standard deviation are used to facilitate the comparison of data collected in both Cote d'Ivoire and Ghana.

Generally, the formulae are the following:

Mean: $\bar{X} = \sum X/N$

Standard Deviation: $S = \sqrt{\sum (X - \bar{X})^2/N-1}$

Where X is the raw data; $\bar{X}$, the mean; S, the Standard Deviation and N, the number of scores.

7.2 Difference of Means: Table

Table 7.2 (Appendix 9) presents statistical tests for differences between the two means (of Cote d'Ivoire data and Ghana data). The tests are 't', with degrees of freedom (df), and the formulae for these are shown below:

$$t = \frac{Xbar - Ybar}{\sqrt{(S1^2/m) + (S2^2/n)}}$$

$$df = \frac{(S1^2/m + S2^2/n)^2}{(S1^2/m)^2 / (m-1) + (S2^2/n)^2 / (n-1)}$$

where **Xbar** and **Ybar** are the means of the data for two countries, **S1** and **S2** are the standard deviations and **m** and **n** are the countries sample sizes. The final column of Table 7.2 reports on whether there is a significant statistical difference between the means for the two countries and the level of significance of this difference. All the degrees of freedom are greater than 30 and the critical values are as below.

The critical values for 't' (two-tailed test) are:

10% = +/- 1.671

5% = +/- 2.390

1% = +/- 2.660

The 1% level indicates very strong significant evidence of a difference, 5% strong evidence and 10% some evidence.

Note: 't' is positive and significant if the score (mean) is higher for Cote d'Ivoire than Ghana while negative 't' if score (mean) is higher for Ghana.

7.3 Interpreting results

By applying these statistical tools, there is strong evidence that the following issues are very important to the understanding of the success of firms operating within a currency union and how exchange rate regime affects the different transactions between Africa and the Rest of the World, specifically between Cote d'Ivoire and the Rest of the World and Ghana and the Rest of the World including the European Union. The questions, which relate to the success of firms within a monetary union, are set in the table below:

No	Variables	Questionnaire
1	Currency pegged to major international currencies	Q24a
2	Completely flexible exchange rate	Q24b
3	Shifting export towards manufactures	Q25e
4	Diversifying trade	Q25f
5	Greater interregional trade	Q25g
6	Harming trade and investment	Q28c
7	Higher export price seriously reduces competitiveness	Q30a
8	Cheaper to purchase new technologies	Q30c
9	Exchange rate depreciation improves exports price competitiveness	Q31c
10	Exchange rate depreciation affects dollar-denominated debts by requiring more francs to pay off dollar debts	Q31e
11	Policies inappropriate to domestic needs	Q33b
12	Long term credit for investment	Q34b
13	Short term trade credit	Q34c

The general hypothesis being tested by the survey is that membership of a currency union (CFA Zone) linked to a major world currency (Euro) is of commercial benefit to business enterprises in the union. In terms of the survey, the hypothesis will be supported if Ivorian firms are strongly of the opinion that operating within a monetary union linked to the European Union leads to better performance compared with Ghanaian firms. The analysis is as followed:

(1) Currency pegged to major international currencies

Companies operating in the CFA zone are subject to the peg of the CFA Franc to the Euro. 79 percent of Ivorian firms preferred a peg, therefore strongly supporting the

hypothesis compared to 26 percent in Ghana (Q24a). There is a significant difference at the 1 percent level between Cote d'Ivoire and Ghana with Cote d'Ivoire emphasizing this factor more strongly than Ghana. However, the peg contributes to stabilizing the nominal effective exchange rate of the Francs area, keeping inflation low, which has a beneficial impact on economic growth and development for open economies. Thus, Fielding and Shields (2005, P 1052) argued that a peg reduces international transactions costs and exchange rate risk, which promotes more trade and greater business cycle synchronicity. Also, the liberalization of capital movement between the two zones, combined with the ongoing trade liberalization helps the CFA zone to gain full benefits from WAEMU.

(2) Completely flexible exchange rate

Firms operating in Ghana strongly agree on the value of a flexible exchange rate (Q24b). 52 percent of these companies preferred a completely flexible exchange rate regime compared to zero percent in Cote d'Ivoire. In Ghana, firms have the opportunity to avoid risks through hedging. Above all, countries as well as businesses appear to support the system they are familiar with.

(3) Shifting exports towards manufactures

51 percent of Ivorian firms agreed that a fixed exchange rate regime encouraged manufactures compared to 16 percent in Ghana (Q25e). The industry sector is the driving force of economic progress because it creates value-added goods and high employment. In that sense, the Ivorian government puts in place policies designed to encourage new as well as existing manufacturing firms such as Nestle, Saco, Blohorn.

(4) Diversifying trade

39 percent of Ivorian firms thought a fixed exchange rate system encouraged export diversification compared to only 8 percent in Ghana (Q25f). The Ivorian government has frequently voiced its concern regarding the concentration of its export trade. The ideal is to get easy access to all the principal international markets. Various pressures may be exerted to induce small countries to purchase most of their needed imports from the larger trading partner that has bought most of their exports. In case of Cote d'Ivoire, most of the exports were directed to France until recently the trend changed to other major destination such as the Netherlands, USA and Nigeria.

(5) Greater interregional trade

86 percent of Ivorian firms thought that the membership of a fixed exchange rate system encouraged greater interregional trade compared to 42 percent of Ghanaian ones (Q25g), and this difference is highly significant. Companies consider that concentration of activity in one region increases the incentive for other firms to relocate there in large part in order to benefit from external economies, mainly the technology set up in that agglomeration. It gives the opportunity for firms to specialize within their industry and produce high quality export products.

(6) Harming trade and investment

In Cote d'Ivoire, the business community believes that the flexible exchange rates harm trade and investment. 51 percent of firms agreed with this assertion compared to 12 percent in Ghana (Q28c). Since the advent of the Euro, many countries or regions are planning to set up monetary unions, as it would strengthen trade links and high investment between member states and regions.

(7) Higher export price seriously reduces competitiveness

Ivorian firms faced the issue of appreciation of the exchange rate in the pre-devaluation period. As a result, the CFA Franc was devalued in 1994 to allow the country's export to be more competitive. 84 percent of these firms especially the industry sector, felt exchange rate appreciation seriously reduced competitiveness compared to 60 percent in Ghana (Q30a).

One major disadvantage of the fixed exchange rate was the relative rise of the CFA Franc as a result of the currency devaluations elsewhere in Africa and beyond.

In the late 1980s, the depreciation of US Dollar against the French Franc consequently led to the rise of the CFA Franc. This undermined the competitiveness of the CFA countries, which found it increasingly difficult to export goods that other countries supplied more cheaply.

(8) Cheaper to purchase new technologies

Despite the high export prices due to the appreciation of the exchange rate, most Ivorian companies used the opportunity of cheaper imports to get new technologies in order to be ahead of their regional counterparts. That was the reason why the view that exchange rate appreciation makes it cheaper to purchase new technologies has been highly defended by these firms. 79 percent of Ivorian firms agreed, strongly supporting the hypothesis compared to 40 percent of Ghanaian businesses (Q30c).

(9) Exchange rate depreciation improves exports price competitiveness

Ivorian firms agreed with the view that the exchange rate depreciation improves export price competitiveness. 90 percent of these companies are strongly supporting the hypothesis compared to 50 percent in Ghana (Q31c). In 1994, the Franc zone had been forced to devalue its currency due to the loss of its export competitiveness also due to France policy of 'Franc fort' in respect of the US Dollar.

(10) Exchange rate depreciation affects Dollar-denominated debts by requiring more Francs to pay off Dollar debts

Ivorian firms strongly agree with the view that exchange rate depreciation affects dollar-denominated debts by requiring more Francs to pay off Dollar debts (Q31e). 30 percent of these companies faced with the issue while only 9 percent of Ghanaian firms have concern about it. It is due to the tight trade link between Cote d'Ivoire and the European Union and also the CFA Franc is pegged to the Euro. Conversely, the majority of Ivorian international transactions are denominated in Dollars, which is the means of exchange.

(11) Policies inappropriate to domestic needs

41 percent of Ghanaian firms felt that within a monetary union, policies are not appropriate to domestic needs compared to 30 percent of Ivorian firms (Q33b). They think policies are not specifically tailored to individual countries.

Governments do not have control over monetary policies as they are set up at regional level. As result, it weakens their ability to adjust to external shocks to domestic economy for example the volatility of export price and international interest rates.

(12) Long term credit for investment

86 percent of Ivorian firms strongly favour the view that banks with a fixed link to the Euro encouraged long term credit for investment compared to 51 percent of Ghanaian enterprises (Q34b). The access to the European capital market allows firms to acquire for example new machinery or new plants or expansion.

(13) Short term trade credit

97 percent of Ivorian firms considered banks were important sources of short term credit compared to 42 percent in Ghana (Q34c). It is easy for companies to get grants and/or small loans to export their product abroad especially those involved in commodity trading.

Both Cote d'Ivoire and Ghana firms agreed at 100 percent on the following issues:

(1) Company's competitive advantage

- Firms in both Cote d'Ivoire and Ghana strongly believe that company image is very important to access different markets worldwide (Q17a). Business environment is opened to well-known brands.
- Again, the quality of the product of companies is very important (Q17b). Quality is one of the best instruments to access global market.
- Ivorian and Ghanaian firms strongly agreed good communication enhanced competitiveness (Q17m). Serious enterprise needs a strong and powerful communication service to boost its image.

(2) Variables influencing the company success

- The issue of effective strategic planning is considered very important by both Ivorian and Ghanaian firms (Q18g). It is the process of defining a direction and allocating companies resources (capital and people) in order to achieve its goal by using different techniques such as SWOT and PEST analysis.
- Ivorian and Ghanaian firms all agreed that they should emphasize quality management (Q18h). Top management should have a clear and concise vision to take the firm forward by, for example, making appropriate investment.

(3) Benefit of operating in a fixed exchange rate regime

- All Ghanaian firms agree with their Ivorian counterparts on the issue of less volatile exchange rate when operating in a fixed exchange rate regime (Q26a). However, Cote d'Ivoire and Ghana are small economies in which their financial markets are less developed. So, they all recognize the benefit of fixed exchange rate regime to boost their export trade with the EU, which is maintaining stable monetary policy.
- Also, they are strongly supporting the elimination of exchange rates risks by joining a monetary union (Q32d). Consequently, it will encourage trade between countries by eliminating risks coming from uncertain fluctuations of exchange rates and transaction costs.
- Finally, firms in both Cote d'Ivoire and Ghana strongly support the view that lower inflation and interest rates result when operating within a monetary union (Q32m). Ivorian firms are benefiting from low inflation and interest rates.

(4) Variables influencing exchange rates

- Capital inflows: Both Ivorian and Ghanaian firms strongly agree with the view that companies operating within a monetary union have easier access to capital inflows (Q37c). However, foreign interest rates have been the pushing factor driving capital inflows and determining their magnitude but country creditworthiness can influence the timing and geographic destination of the capital flows.

7.4 Conclusion

The survey shows overwhelmingly that all firms in both Cote d'Ivoire and Ghana agreed on issues related to the company's image, the quality of its product, its communication system, its effective strategic planning, its quality management, less currency convertibility issues, less volatile exchange rate, elimination of multiple exchange rates risks, low inflation and interest rates and finally capital inflows. Therefore, they all very strongly support the hypothesis that, generally, membership of a monetary union (fixed exchange rate regime) is beneficial to its member states. The monetary union combined with other appropriate policies could play a vital role in enabling firms to grow. It is due to the fact that it may provide macroeconomic stability,

which can greatly enhance the prospects for export. As result, Cote d'Ivoire performs relatively well compare to Ghana.

Trade exports represent a large proportion of the country's overall GDP. The fact of being member of the West Africa Economic Monetary Union (WAEMU) gives Cote d'Ivoire enormous opportunities to explore and export more to the EU. The Ivorian overall growth has been boosted by its greater trade involvement with the European Union. Furthermore, Cote d'Ivoire deserves credit for its efforts at trade liberalization (Chapter 5).

Despite the Ivorian performance, Ghana has caught up during the last few years by broadening its economic activity. While agriculture continues to be a key sector, manufacturing and construction are emerging as important contributors to overall growth. The country has focused on implementing an export-led trade policy with impressive results.

Although, the objective of a monetary union is to achieve a low, stable, and predictable rate of inflation, exchange rate, asset prices and credit availability, there are also enormous issues which pull back a currency union in West Africa. Attention should be paid to social, cultural and socio-political factors examined in Chapter Eight. Chibba (2008, P 300) added the following factors such as knowledge and information, monetary policy framework, access to credit, structural issues and good governance.

There is a great need to consider and integrate the needs and the role of poor who represents the majority in these countries. Most of the population is not served by the formal financial sector so any financial issues are of interest. Also, effective implementation of policies requires political will, appropriate allocation of resources and adequate restructuring of business environment and institutions. Again, monetary union leads to the loss of exchange rate as a policy instrument and the risk of overvaluation. In the case of WAEMU, member states import the effects of any imbalances from the EU such as currency fluctuation and financial turmoil. The inflation is close to the rate experienced in Europe. Such a policy results in weakening the ability of CFA countries to adjust to external shocks to the domestic economy. Linjouom (2004, P 5) argued that monetary union contributes to a lack of intra-regional trade. There is a diversity of production and trade structure in the WAEMU so the

impact of terms of trade shocks will vary widely. Any attempt to address these shocks will not be uniform across countries.

Another important issue is the peg of CFA Franc to the Euro. Siddiqi (1999, P 3) argued that there are risks for commodity-based developing countries from linkage to a hard and strong currency. The appreciation of the Euro, seen today, will undermine export competitiveness of CFA countries in Dollar-based world markets for crude oil, coffee, cocoa and cotton; and also lead to significant deterioration in the terms of trade for these countries. As a result, producers' earnings in Euros will decline, due to an appreciation in the real effective exchange rate. Therefore, the export-led growth of the Francophone Africa since the devaluation of 1994 could be hit by a strong Euro.

8.0 HYPOTHESIS ANALYSIS

This section covers the analysis of the different hypotheses (Chapter 1 section 4) using frequency table, cross-tabulation and chi-square tests. Also, the correlation test is applied to emphasize the link between the different variables. The focus is to identify the relationship between business sector, country of origin and various issues arisen from exchange rate regimes and monetary union. We find similarities between our study and global research on the impact of exchange rate and monetary union on businesses.

8.1 Hypotheses analysis using cross-tabulation and chi-square tests

A cross-tabulation is defined as a joint frequency distribution of cases based on two or more categorical variables. Displaying a distribution of cases by their values on two or more variables is known as contingency table analysis and is one of the more commonly used analytic methods in the social sciences. The joint frequency distribution can be analyzed with the chi-square statistic (χ^2) to determine whether the variables are statistically independent or if they are associated.

In statistics, a result is called statistically significant if it is unlikely to have occurred by chance. The phrase test of significance was coined by Ronald Fisher. The amount of evidence required to accept that an event is unlikely to have arisen by chance is known as the significance level or critical p-value: in traditional Fisherian statistical hypothesis testing, the p-value is the probability of observing data at least as extreme as that observed, given that the null hypothesis is true. If the obtained p-value is small then it can be said either the null hypothesis is false or an unusual event has occurred. It is worth stressing that p-values do not have any repeat sampling interpretation.

The significance level is usually denoted by the Greek symbol α (lowercase alpha). Popular levels of significance are 5% (0.05), 1% (0.01) and 0.1% (0.001). If a test of significance gives a p-value lower than the α-level, the null hypothesis is rejected. Such results are informally referred to as 'statistically significant'.

$$X^2 = \Sigma \frac{(\text{Observed frequency} - \text{Expected frequency})^2}{\text{Expected frequency}}$$

By using frequency table, cross-tabulation and chi-square tests, the results are:

8.1.1 Hypothesis 1: There is a relationship between exchange rate and firm's characteristics

The test result reveals no relationship between the different variables such as business sector, country of origin and the view that the exchange rate regime has an effect on both Ivorian and Ghanaian firms' characteristics. This hypothesis is kept in line with the correlation test. This test, detailed in Section 8.2 below, confirms a relationship between exchange rate and the characteristics of firms in Cote d'Ivoire.

8.1.2 Hypothesis 2: Exchange rate and monetary regimes influence and change business behaviour

2.1 Capital inflow

Table 2.1a Capital inflows

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No impact	2	2.0	2.0	2.0
	Little impact	2	2.0	2.0	4.0
	Some impact	19	19.0	19.0	23.0
	Important impact	5	5.0	5.0	28.0
	Serious impact	72	72.0	72.0	100.0
	Total	100	100.0	100.0	

Table 2.1b Business sector, country of origin and Capital inflows: Cross-tabulation

Q3				Capital inflows					
				No impact	Little impact	Some impact	Important impact	Serious impact	Total
Cote d'Ivoire	Q2	Agriculture	Count			4	0	3	7
			% within Q2			57.1%	.0%	42.9%	100.0%
		Industry	Count			2	3	34	39
			% within Q2			5.1%	7.7%	87.2%	100.0%
		Services	Count			0	0	11	11
			% within Q2			.0%	.0%	100.0%	100.0%
	Total		Count			6	3	48	57
			% within Q2			10.5%	5.3%	84.2%	100.0%
Ghana	Q2	Agriculture	Count	0	1	0	0	1	2
			% within Q2	.0%	50.0%	.0%	.0%	50.0%	100.0%
		Industry	Count	1	1	10	1	13	26

		% within Q2	3.8%	3.8%	38.5%	3.8%	50.0%	100.0%
	Services	Count	1	0	3	1	10	15
		% within Q2	6.7%	.0%	20.0%	6.7%	66.7%	100.0%
	Total	Count	2	2	13	2	24	43
		% within Q2	4.7%	4.7%	30.2%	4.7%	55.8%	100.0%

Table 2.1c Business sector, country of origin and Capital inflows: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	19.861(a)	4	.001
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	12.290(b)	8	.139
	N of Valid Cases	43		

The test reveals significant association between business sector and capital inflows in Cote d'Ivoire due to its openness since its independence. However, the industry (87.2 percent) and services (100 percent) as well as the Ghanaian services sector (66.7 percent) are more concerned due to the high volume of foreign companies operating within the Ivorian business environment. This assertion is confirmed by Acquaah (2009, P 57) who indicates that because IJVs with partners from advanced industrialized economies posses superior resources and capabilities and have reputational advantages than IJVs with partners from emerging economies, they rely on their superior resources, capabilities, and reputational advantage to compete in low-income emerging economies. On the other hand, IJVs with partners from emerging economies recognizing their lack of credibility in the eyes of consumers as producers of quality or differentiated products use their resources and capabilities to focus their attention on the masses at the bottom of the income ladder in low-income emerging economies by pursuing the cost leadership strategy. Thus, IJVs with partners from emerging economies are forced to develop alternative models based on price/value tradeoffs in harnessing the potentially vast untapped market at the base of the pyramid in emerging economies.

Also, due to mounting debts, foreign direct investment (FDI) becomes increasingly important sources for developing countries' capital flows so FDI reforms are set to improve business environment in order to attract foreign capital (Boateng, 2004, P56). Thus, the Ivorian economy is characterized by strong foreign presence as a result of former 'open-door' policies aimed at attracting foreign direct investment. Foreign direct investment plays a key role in Cote d'Ivoire where France is overwhelmingly the most important foreign investor for about one-quarter of the total capital in Ivorian firms and over half of the total stock of foreign investment capital.

The majority of Ivorian firms despite their multinational status recognize that capital is a serious issue. Robson & Obeng (2008, P 386) argue that capital is showing to be the major problem owner-managers have to overcome at the conception stage and also as they grew from commercialization to growth. It is believed to be a worldwide concern

but unfortunately, the Ivorian domestic capital market is underdeveloped, resulting in limited access to the EU financial markets so there is urgent need to strengthen the Ivorian financial market links with the global market.

2.2 Socio-political instability

Table 2.2a Socio-political stability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Some impact	1	1.0	1.0	1.0
	Important impact	2	2.0	2.0	3.0
	Serious impact	97	97.0	97.0	100.0
	Total	100	100.0	100.0	

Table 2.2b Business sector, country of origin and Socio-political stability: Cross-tabulation

Q3				Socio-political stability			
				Some impact	Important impact	Serious impact	Total
Cote d'Ivoire	Q2	Agriculture	Count		2	5	7
			% within Q2		28.6%	71.4%	100.0%
		Industry	Count		0	39	39
			% within Q2		.0%	100.0%	100.0%
		Services	Count		0	11	11
			% within Q2		.0%	100.0%	100.0%
	Total		Count		2	55	57
			% within Q2		3.5%	96.5%	100.0%
Ghana	Q2	Agriculture	Count	1		1	2
			% within Q2	50.0%		50.0%	100.0%
		Industry	Count	0		26	26
			% within Q2	.0%		100.0%	100.0%
		Services	Count	0		15	15
			% within Q2	.0%		100.0%	100.0%
	Total		Count	1		42	43
			% within Q2	2.3%		97.7%	100.0%

Table 2.2c Business sector, country of origin and Socio-political stability: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	14.805(a)	2	.001
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	20.988(b)	2	.000
	N of Valid Cases	43		

The test shows significant association between business sector, country of origin and the view on socio political stability. This issue is very important for Cote d'Ivoire and Ghana (Table 2.2b) as firms in both countries have experienced 'coup d'état', rebellion and social instability. Chi-square test is extremely significant in Ghana with 0.00 score and Cote d'Ivoire, 0.001 showing the extreme importance of socio-political stability on company success.

It is interesting to note the negative impact of socio-political instability on economic activity and especially on the economic growth. According to Nyembwe (2005, P7), the instability induces a lack of property rights protection; this can lead to a decrease of capital accumulation as less investment is undertaken. Fosu (1992) argues that the same decrease characterizes human capital accumulation because of the brain drain that occurs due to the instability. He also argues that a breakdown in the level of GDP can be observed because the production process is likely to be interrupted during episode of severe crises like coup d'état and revolutions. Moreover, the negative impacts of instability on growth work through a deterioration of productivity. As a result, production will decline.

Socio-political instability is very important due to the following:

- Politicians avoid any structural reforms and pursue wait and see policies in order to limit disagreement with the population and the country as whole;
- Politicians avoid to keep up with their commitments in appropriate policies, declining any accountability;
- Corruption becomes a tool used in all sectors of activity.

Empirically, Guillaumont et al. (1999) establish that as other primary instabilities, political instability influences African growth through lowering the rate of investment and appreciating the real exchange rate. It leads to a negative impact on the capital accumulation and the productivity of investment. However, in Cote d'Ivoire, business people commonly use this proverb: 'L'argent n' aime pas le bruit' interpreted as 'capital flees when there is instability' to show the importance of stability. It proves the fact that people invest in safe environment. All events such as threat of a coup, demonstrations, upraising and protests produce substantial capital flight. The speed and magnitude of capital flight suggest that its sources are not only economic. Socio-political instability is the most important factor associated with capital flight. According to Vu Le & Zak (2006, P 309), empirical studies show that capital flight is a substantial impediment to growth in developing countries. Although, capital flight is purely a private sector

activity, the drain of foreign exchange resources through it creates a greater need for governments to borrow abroad.

Linjouom (2004, P15) identifies four sources of political instability in most developing countries: lack of administrative capacity, overzealous government rules and regulations, rent-seeking behaviour and inefficient political cycles. The author adds that a state is weak when the sources of political instability are numerous and widespread, a situation that can be found in both democratic and dictatorial political systems.

Given its stability, Ghana was recognized for its economic and democratic achievements in 2006. The economy has performed well with a solid macroeconomic management including major debt relief, large inflows of donor resources and high cocoa and gold prices. In Sub-Saharan Africa, political institutions are weak because government policies change when key individuals change jobs. The implication of this fact is that political risks in Africa limit financing choices available to foreign investors and affect capital inflows crucial for economic development (Boateng, 2004, P 64). Therefore, both Cote d'Ivoire and Ghana are increasingly promoting and maintaining a transparent legal system, capable of gaining confidence of foreign investors.

2.3. Local social values and customs

Table 2.3a Local social values and customs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	38	38.0	38.0	38.0
	Less important	7	7.0	7.0	45.0
	Moderately important	24	24.0	24.0	69.0
	Important	9	9.0	9.0	78.0
	Very important	22	22.0	22.0	100.0
	Total	100	100.0	100.0	

Table 2.3b Business sector, Country of origin and Local social values and customs: Cross-tabulation

Q3				Local social values and customs					Total
				Not important at all	Less important	Moderately important	Important	Very important	
Cote d'ivoire	Q2	Agriculture	Count	1	1	1	0	4	7
			% within Q2	14.3%	14.3%	14.3%	.0%	57.1%	100.0%
		Industry	Count	20	4	8	4	3	39
			% within Q2	51.3%	10.3%	20.5%	10.3%	7.7%	100.0%
		Services	Count	7	0	3	1	0	11
			% within Q2	63.6%	.0%	27.3%	9.1%	.0%	100.0%

	Total		Count	28	5	12	5	7	57
			% within Q2	49.1%	8.8%	21.1%	8.8%	12.3%	100.0%
Ghana	Q2	Agriculture	Count	1	1	0	0	0	2
			% within Q2	50.0%	50.0%	.0%	.0%	.0%	100.0%
		Industry	Count	5	1	8	3	9	26
			% within Q2	19.2%	3.8%	30.8%	11.5%	34.6%	100.0%
		Services	Count	4	0	4	1	6	15
			% within Q2	26.7%	.0%	26.7%	6.7%	40.0%	100.0%
	Total		Count	10	2	12	4	15	43
			% within Q2	23.3%	4.7%	27.9%	9.3%	34.9%	100.0%

Table 2.3c Business sector, Country of origin and Local social values and customs: Chi-Square Tests

Q3		Value	df.	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	18.108[a]	8	.020
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	12.340[b]	8	.137

All firms operating within the three sectors of activity are of concern (Table 2.3b). This test reveals that there is a significant association between business sector and the view on local social values and customs in Cote d'Ivoire.

Given its over sixty ethnic groups, Cote d'Ivoire is a country with rich and diverse cultural values. It provides a rich source of study. Properly tailored, these values will make an important contribution to the expansion of Ivorian companies. Darley & Blankson (2008, P 374) argued that there is consensus that culture has a fundamental influence on marketing practices in ways parallel to their effects on consumers as marketing involves an outlay of resources. Mendonca & Kanungo (1996, P 74) stressed that taking into consideration the socio-cultural environment, managers should adopt specific strategies to overcome constraints and build on the strengths of firms' internal work culture. Today, the world is a global village where there are transfers of investment from developed countries to African nations. Therefore, great understanding and appreciation of African culture or social values is not an option but a necessity.

As stated by Iguisi & Rutashobya (2002), the lack of proper integration of culture in management in Africa is to deny the continent the resultant synergy needed in national economic, managerial and social development. The issue is of importance to Ivorian firms given the openness of its economy as foreign direct investment plays a significant role, accounting for between 40 and 45 percent of total capital in these firms (World Bank, September 2008). Due to an economic interrelationship in Africa combined with global financial transactions and joint ventures between businesses and the growing attraction of foreign direct investment, Darley and Blankson (2008, P 374) stress how surprising little is documented about African culture and its interface with business prosperity. Moreover, business literature lacks consideration of African culture (Ford,

2002). To succeed in their marketplace, it is clear that Ivorian firms need to tackle appropriately the issues of belief, attitudes and perceptions that characterize the country's culture.

Given the diversity of the Ivorian cultural environment, new social class emerges that is sophisticated and well-educated. That gives the opportunity to investors and industrials to be up to date for their company expansion.

Chelariu et al. (2002, P 467) confirmed that the findings of their study show that Ivorian firms must realign structural influences, systems and incentives to reflect both the objectives of the firm and to be sensitive to local conditions. However, factors such as lack of marketing skills, lack of financial resources and government intervention like price controls, are likely to be important deterrents in implementing market orientation.

8.1.3 Hypothesis 3: Impact of exchange rate fluctuation on company success including its competitive advantage

3.1 Bank credibility

In Table 3.1a, Companies in Cote d'Ivoire and Ghana were asked if they felt that their competitive advantage was affected by the credibility of their bank. 94 of the 100 companies or 94.0 percent agreed strongly supporting the hypothesis.

Table 3.1a Bank credibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	1	1.0	1.0	1.0
	Moderately important	1	1.0	1.0	2.0
	Important	4	4.0	4.0	6.0
	Very important	94	94.0	94.0	100.0
	Total	100	100.0	100.0	

Table 3.1b shows the cross-tabulation between industry sector, country of origin and the view on that the company competitive advantage was the credibility of its bank and Table 3.1c the associated chi-square test. This test shows significant association between business sectors and the view on bank credibility in Cote d'Ivoire due to the facility for foreign firms to repatriate their capital while in Ghana there is no significant association between the variables.

Table 3.1b Business sector, country of origin and Bank credibility: Cross-tabulation

Q3				Bank credibility				
				Not important at all	Moderately important	Important	Very important	Total
Cote d'ivoire	Q2	Agriculture	Count			2	5	7
			% within Q2			28.6%	71.4%	100.0%
		Industry	Count			1	38	39
			% within Q2			2.6%	97.4%	100.0%
		Services	Count			0	11	11
			% within Q2			.0%	100.0%	100.0%
	Total		Count			3	54	57
			% within Q2			5.3%	94.7%	100.0%
Ghana	Q2	Agriculture	Count	0	0	0	2	2
			% within Q2	.0%	.0%	.0%	100.0%	100.0%
		Industry	Count	0	1	0	25	26
			% within Q2	.0%	3.8%	.0%	96.2%	100.0%
		Services	Count	1	0	1	13	15
			% within Q2	6.7%	.0%	6.7%	86.7%	100.0%
	Total		Count	1	1	1	40	43
			% within Q2	2.3%	2.3%	2.3%	93.0%	100.0%

Table 3.1c Business sector, country of origin and Bank credibility: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	8.808(a)	2	.012
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	4.490(b)	6	.611
	N of Valid Cases	43		

Major banks in Cote d'Ivoire are subsidiaries of foreign banks especially French-owned financial institutions. They play a significant role for companies as most of the Ivorian firms surveyed, operate internationally. These banks became more profitable following the restructuring of the financial sector in the early 1990s and the devaluation of the CFA Franc in 1994 due to lack of incentives, deficiencies in the legal and regulatory framework, weak capitalization, inadequate technical and managerial capacity.

King and Levine (1993) in Azam et al. (2001, P 520) support empirically the Schumpeterian view that the financial sector is key to promoting growth. Also, given the guarantee provided by France over the convertibility of the CFA Franc to Euro, this arrangement facilitates inter-state trade and payment, movement of capital and labour, and maintains the stability of the exchange rates between the two currencies, has such the prosperity of businesses.

3.2 Marketing research and customer intelligence

In Table 3.2a, Ivorian and Ghanaian firms were asked if they felt that their competitive advantage was their marketing research and customer intelligence. Only 49 firms or 49.0 percent agreed it is very important.

Table 3.2a Marketing research and customer intelligence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	8	8.0	8.0	8.0
	Less important	3	3.0	3.0	11.0
	Moderately important	25	25.0	25.0	36.0
	Important	15	15.0	15.0	51.0
	Very important	49	49.0	49.0	100.0
	Total	100	100.0	100.0	

Table 3.2b shows the cross-tabulation between industry sector, country of origin and the view on that the company competitive advantage was its marketing research and customer intelligence and Table 3.2c the associated chi-square test .The test shows significant association between business sector and the view on marketing research and customer intelligence in Cote d'Ivoire due to large number of multinational subsidiaries operating in the market while in Ghana there is no significant association between the variables.

Table 3.2b Business sector, country of origin and Marketing research and customer intelligence: Cross-tabulation

Q3				Marketing research and customer intelligence					
				Not important at all	Less important	Moderately important	Important	Very important	Total
Cote d'Ivoire	Q2	Agriculture	Count	3	1	1	2	0	7
			% within Q2	42.9%	14.3%	14.3%	28.6%	.0%	100.0%
		Industry	Count	2	2	12	7	16	39
			% within Q2	5.1%	5.1%	30.8%	17.9%	41.0%	100.0%
		Services	Count	0	0	2	0	9	11
			% within Q2	.0%	.0%	18.2%	.0%	81.8%	100.0%
	Total		Count	5	3	15	9	25	57
			% within Q2	8.8%	5.3%	26.3%	15.8%	43.9%	100.0%
Ghana	Q2	Agriculture	Count	0		0	0	2	2
			% within Q2	.0%		.0%	.0%	100.0%	100.0%
		Industry	Count	1		6	4	15	26
			% within Q2	3.8%		23.1%	15.4%	57.7%	100.0%
		Services	Count	2		4	2	7	15
			% within Q2	13.3%		26.7%	13.3%	46.7%	100.0%
	Total		Count	3		10	6	24	43
			% within Q2	7.0%		23.3%	14.0%	55.8%	100.0%

Table 3.2c Business sector, country of origin and Marketing research and customer intelligence: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	22.776(a)	8	.004
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	3.176(b)	6	.786
	N of Valid Cases	43		

Despite the so-called 'civil war' in Cote d'Ivoire, the volume of business activities is increasing and a vibrant society is more and more developing with the improvement in the political stability. The demand for goods and services is extremely high and supermarkets and shops are well-stocked with a wide range of national and international products. So that, Akamavi et al (2004) argued that the wealth of marketing

opportunities is clearly evident in Abidjan which is home to more than ten major international advertising agencies. A social class is emerging that is sophisticated, well-educated and wealthy, proving attractive to investors (P 469). Therefore, marketing is playing a vital role to fully provide high customer satisfaction. As result, firms can influence the demand for goods and services through marketing research and customer intelligence. Chelariu et al. (2002, P 458) reveals that in Cote d'Ivoire, the level of GDP per capita is one of the highest in Sub-Saharan Africa, implying the presence of a significant proportion of consumers with substantial purchasing power. Consequently, firms can benefit from being market oriented, requiring more marketing skills. Given the changing behaviour of customer in the Ivorian business environment, it is imperative to firm's managers and owners to listen to their needs and expectations.

Fening et al. (2008, P 699) stressed that firms should take into account the needs of these consumers if they want to stay in competition and become competitive. As much as possible, to be able to compete, firms need knowledge about their customer.

3.3 Research and development in both Cote d'Ivoire and Ghana

In Table 3.3a, Ivorian and Ghanaian firms were asked if they felt that their competitive advantage was based on research and development. 61 of the 100 firms or 61.0 percent agreed strongly supporting the hypothesis.

Table 3.3a Research and development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	15	15.0	15.0	15.0
	Less important	3	3.0	3.0	18.0
	Moderately important	7	7.0	7.0	25.0
	Important	14	14.0	14.0	39.0
	Very important	61	61.0	61.0	100.0
	Total	100	100.0	100.0	

Table 3.3b shows the cross-tabulation between industry sector, country of origin and the view on that the company competitive advantage was based on research and development and Table 3.3c the associated chi-square test. This test shows significant association between industry sector, country of origin and the view on research and development in both Cote d'Ivoire and Ghana. The significance is very important for the industry sector with 70 percent of Ivorian firms and 85 percent of Ghanaian's (Table 3.3b).

Table 3.3b Business sector, country of origin and Research and development: Cross-tabulation

Q3			Research and development					Total
			Not important at all	Less important	Moderately important	Important	Very important	
Cote d'Ivoire	Q2 Agriculture	Count	5	0	0	1	1	7
		% within Q2	71.4%	.0%	.0%	14.3%	14.3%	100.0%
	Industry	Count	2	1	3	6	27	39
		% within Q2	5.1%	2.6%	7.7%	15.4%	69.2%	100.0%
	Services	Count	4	2	1	2	2	11
		% within Q2	36.4%	18.2%	9.1%	18.2%	18.2%	100.0%
	Total	Count	11	3	4	9	30	57
		% within Q2	19.3%	5.3%	7.0%	15.8%	52.6%	100.0%
Ghana	Q2 Agriculture	Count	0		1	0	1	2
		% within Q2	.0%		50.0%	.0%	50.0%	100.0%
	Industry	Count	0		1	3	22	26
		% within Q2	.0%		3.8%	11.5%	84.6%	100.0%
	Services	Count	4		1	2	8	15
		% within Q2	26.7%		6.7%	13.3%	53.3%	100.0%
	Total	Count	4		3	5	31	43
		% within Q2	9.3%		7.0%	11.6%	72.1%	100.0%

Table 3.3c Business sector, country of origin and Research and development: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	27.087(a)	8	.001
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	14.844(b)	6	.022
	N of Valid Cases	43		

This test shows significant association between industry sector, country of origin and the view on research and development in both Cote d'Ivoire and Ghana. The significance is very important for the industry sector with 70 percent of Ivorian firms and 85 percent of Ghanaian's. Multinationals are increasingly involved in research and development in developing countries due to their importance to their parent companies' long-term fortune. It is more and more a question of emphasizing the role of universities

in the development of these countries such as Cote d'Ivoire and Ghana using applied research and increasingly, innovation and technology management activities. That legitimate role for universities will facilitate long-term economic growth and achieve direct impact on poverty reduction for example.

Robson and Freel (2008, P 447) recognize these findings reinforce the importance of investments in innovation and skills, irrespective of sector. Such investments are likely to matter to economies dominated by agriculture, as well as to those dominated by services or manufacturing.

Unfortunately, universities in both countries are not playing significant roles in the expansion of the business sector, which is the engine of sustainable economic prosperity and crucially, they are under-funded.

3.4 Availability of raw materials

For both Cote d'Ivoire and Ghana, 85 of 100 firms or 85 percent in Table 3.4a strongly agreed that the impact of the exchange rate regime on company success leads to the availability of raw materials.

Table 3.4a Availability of raw materials

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	7.0	7.0	7.0
	Undecided	4	4.0	4.0	11.0
	Slightly agree	4	4.0	4.0	15.0
	Strongly agree	85	85.0	85.0	100.0
	Total	100	100.0	100.0	

Table 3.4b shows the cross-tabulation between industry sector, country of origin and the view on the availability of raw materials and Table 3.4c the associated chi-square test. This test shows significant association between industry sector, country of origin and the view on the availability of raw materials in both Cote d'Ivoire and Ghana. The significance is very important for the industry sector with 92.3 percent of Ivorian and Ghanaian firms (Table 3.4b).

Table 3.4b Business sector, country of origin and availability of raw materials: cross-tabulation

Q3				Availability of raw materials				
				Strongly disagree	Undecided	Slightly agree	Strongly agree	Total
Cote d'Ivoire	Q2	Agriculture	Count	0	0	1	6	7
			% within Q2	.0%	.0%	14.3%	85.7%	100.0 %
		Industry	Count	1	1	1	36	39
			% within Q2	2.6%	2.6%	2.6%	92.3%	100.0 %
		Services	Count	3	1	0	7	11
			% within Q2	27.3%	9.1%	.0%	63.6%	100.0 %
	Total		Count	4	2	2	49	57
			% within Q2	7.0%	3.5%	3.5%	86.0%	100.0 %
Ghana	Q2	Agriculture	Count	0	0	1	1	2
			% within Q2	.0%	.0%	50.0%	50.0%	100.0 %
		Industry	Count	1	0	1	24	26
			% within Q2	3.8%	.0%	3.8%	92.3%	100.0 %
		Services	Count	2	2	0	11	15
			% within Q2	13.3%	13.3%	.0%	73.3%	100.0 %
	Total		Count	3	2	2	36	43
			% within Q2	7.0%	4.7%	4.7%	83.7%	100.0 %

Table 3.4c Business Sector, country of origin and Availability of raw materials: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	12.969[a]	6	.044
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	15.378[b]	6	.018
	N of Valid Cases	43		

The industry sector in both Cote d'Ivoire and Ghana are more concern about the availability of raw materials. These firms need to produce large quantities of goods to large market at a competitive price. Therefore, they require capital to purchase their raw materials unfortunately; the cost of capital is high in both countries. According to Tettey et al. (2003, P 37), capital for investment to start or expand a firm is even more difficult to find. Formal banking institutions rarely lend to small manufacturing firms, preferring quicker and larger returns in high interest short-term commercial notes to traders or Treasury Bills purchased from the Bank of Ghana. These firms, also, face fierce competition from large multinationals associated with transportation costs, low imported goods and government policies.

3.5 Exchange rate is highly volatile

The individual responses represent the dependent variable of our analysis which we will refer to as exchange rate issue. For both Cote d'Ivoire and Ghana, 89 of 91 firms or 97.8 percent in Table 3.5a strongly agreed that highly volatile exchange rate affects company success.

Table 3.5a Exchange rate is highly volatile

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO	2	2.0	2.2	2.2
	YES	89	89.0	97.8	100.0
	Total	91	91.0	100.0	
Missing	System	9	9.0		
Total		100	100.0		

97.8 percent of firms of both sides admit that highly volatile exchange rate poses a real issue on their operations showing the scale of the problem. Further tests are conducted relating exchange rate volatility to business sector and country of origin. We notice that the issue of high volatility is a real concern to the industry sector for both countries. Table 3.5b shows the cross-tabulation between industry sectors, country of origin and the view on that in a flexible regime, exchange rate was highly volatile and Table 3.5c the associated chi-square test. The test shows a significant association between business sectors and highly volatile exchange rate due to Ivorian firms have never experienced flexible exchange rate regime. That is also due to Cote d'Ivoire being part of a monetary union, WAEMU, with a stable currency, CFA Franc, pegged to French Franc before and the Euro now. While in Ghana, there is no significant association between business sector and the issue of highly volatile exchange rate even though Ghanaian firms express their view that it is a serious matter to focus on.

Table 3.5b Business sector, country of origin and Exchange rate highly volatile: Cross-tabulation

Q3				Exchange rate highly volatile		
				NO	YES	Total
Cote d'Ivoire	Q2	Agriculture	Count	1	4	5
			% within Q2	20.0%	80.0%	100.0%
		Industry	Count	0	37	37
			% within Q2	.0%	100.0%	100.0%
		Services	Count	0	6	6
			% within Q2	.0%	100.0%	100.0%
	Total		Count	1	47	48
			% within Q2	2.1%	97.9%	100.0%
Ghana	Q2	Agriculture	Count	0	2	2
			% within Q2	.0%	100.0%	100.0%
		Industry	Count	1	25	26
			% within Q2	3.8%	96.2%	100.0%
		Services	Count	0	15	15
			% within Q2	.0%	100.0%	100.0%
	Total		Count	1	42	43
			% within Q2	2.3%	97.7%	100.0%

Table 3.5c Business sector, country of origin and Exchange rate highly volatile: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	8.783(a)	2	.012
	N of Valid Cases	48		
Ghana	Pearson Chi-Square	.669(b)	2	.716
	N of Valid Cases	43		

All Ivorian firms (97.9 percent) view high exchange rate volatility as an obstacle to their business operations due to the fact that they are all multinationals operating internationally. Also, they are used to a fixed exchange rate regime. From their viewpoint, they prefer stable currency especially in Africa where the economy therefore business is overshadowed by political instability including leadership context, coup d'etat and rebellion.

Even in Ghana with flexible exchange rate regime, the majority of firms (97.7 percent) across all sectors view exchange rate volatility as threat to their business. However, since 1960 until 1986, the country suffered serious political crises coupled with severe economic imbalances. This assertion was proved by Bhattarai & Armah (2005, P 5): "Ghana had a disastrous performance on economic growth in the last 20 years. A correct exchange rate has been one of the most important factors for economic growth in the economies of Southeast Asia and volatility in exchange rates has been one of the major obstacles to economic growth of many African and Latin-American economies".

Companies are always keen to find ways to reduce the threats of the exchange rate volatility. Therefore, Tarr & Shatz (2000, P1) argued that despite a trend toward more flexible exchange rates, more than half the world's countries maintain fixed or managed exchange rates. In the 1980s and 1990s, developing countries as a group progressively liberalised their trade regimes but some governments defended their exchange rate in actions. The authors emphasized that exchange rate management in many countries has resulted in overvaluation of the real exchange rate. Roughly 25 percent of the countries for which data are available, have overvalued exchange rates with black market premiums from 10 to more than 100 percent.

Again, according to Salifu et al. (2007, P1), the frequent changes in foreign exchange rate in Ghana is of prime concern to firms due to its effects on their operations, revenue and valuation. Exchange rate variability is a source of cash flow risks for firms with foreign denominated assets and liabilities (whether exporters or importers) as well as firms with overseas operations.

Even firms without foreign revenues, costs or operations are also affected indirectly by exchange rate changes through its impacts on foreign competition and the country's macroeconomic conditions.

Given the difficulty in predicting exchange rate movements, corporate managers, investors and analysts have to find the best option of managing or investing optimally to neutralise exchange rate risks to their companies.

Why is there no significant association between business sector and highly volatile exchange rate in Ghana?

Ghanaian firms operate in highly volatile exchange rate so they all agreed that volatility affects their business regardless of the business sector. They believe the remedy is to monitor carefully the currency fluctuations and focus their effort on the local market.

However, due to the Ghanaian economy being based on the agriculture sector, the government opted for a flexible exchange rate to sell its commodities abroad at a competitive rate and boost the national purchasing power.

Broz et al. (2007, P7) argued using firm-level data from the World Bank's World Business Environment Survey (WBES), that volatile exchange rates create uncertainty about international transactions, adding a risk premium to the costs of goods and assets traded across borders. It has the greatest advantage of allowing a government to pursue an independent monetary policy. However, that independence is said to provide flexibility to accommodate foreign and domestic shocks, including changes in the terms of trade and world financial conditions and to affect the competitiveness of the tradable goods sector.

They also present that international oriented firms will be especially averse to the volatility associated with a floating rate and will therefore prefer a fixed exchange rate. They also typically suggest that tradable producers will be particularly averse to the relative price effects of a real appreciation. Nontradable producers, conversely, are expected to prefer floating rates and an appreciated currency (P 23).

Given the enormous studies conducted worldwide, on the exchange rate regime and its implications for macroeconomic management as well as managing foreign exchange risks, there is little literature on firm exposure to exchange risks in Cote d'Ivoire and Ghana. That is the reason why our study is relevant.

Over 80 percent of firms, in the sample of this thesis, are subsidiaries of large multinationals and hence have a substantial value of their assets and liabilities denominated in the currencies of their parent companies. They also depend on foreign imported input and machinery. Therefore, the depreciation of the Ghanaian Cedis against the US Dollar makes imported goods more expensive and this may result in a shift in demand to local substitutes.

Another argument is that all these firms have significant exposure to US Dollar exchange rate risks due to most of their transactions being denominated in US Dollar. As a result, the retail sector is more affected as it deals mainly with imported goods which are expensive as more Ghanaian Cedis are required to import the same unit of items. Consequently, all major currencies of international transactions of Ghana even Cote d'Ivoire are sources of foreign exchange risks.

There are a number of techniques available worldwide to manage foreign exchange risks such as balance sheet hedging, use of derivatives, leading and lagging. These techniques are too sophisticated and hard to implement in developing countries due to underdeveloped financial systems. Corporate managers and investors should apply simple tools like the use of forward contracts and swaps to supplement price adjustments and investment in foreign currency in order to minimise their exposure to exchange risks. Abor (2005, P317) found that most firms in Ghana manage their foreign exchange risks through two means: the use of price adjustment to reflect balance sheet changes and the buying and holding of foreign currency in advance. This author revealed that Ghanaian firms involved in international trade exhibit a low level use of hedging instruments for managing their foreign exchange risk. The reason may be attributed to the low level of education and sophistication among the firms' finance personnel and also because of the under-developed nature of financial markets.

3.6 Price instability

Both Ivorian and Ghanaian firms were asked if they felt that a flexible exchange rate regime led to price instability. In Table 3.6a, 94.5 percent (86 of 91 firms) of firms strongly stress that price instability may affect their business.

Table 3.6a Price instability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO	5	5.0	5.5	5.5
	YES	86	86.0	94.5	100.0
	Total	91	91.0	100.0	
Missing	System	9	9.0		
Total		100	100.0		

Further tests are conducted between business sector, country of origin and the view that a flexible exchange rate system led to price instability. In Table 3.6b, the majority of firms across business sectors express their view that price instability may have an impact on their business operations in Cote d'Ivoire and Ghana.

Table 3.6c the associated chi-square tests shows a significant association between business sector and price instability in Cote d'Ivoire while in Ghana, there is no significant association between the two variables.

Table 3.6b Business sector, country of origin and Price instability: Cross-tabulation

Q3				Price Instability		Total
				NO	YES	
Cote d'Ivoire	Q2	Agriculture	Count	1	4	5
			% within Q2	20.0%	80.0%	100.0%
		Industry	Count	0	37	37
			% within Q2	.0%	100.0%	100.0%
		Services	Count	0	6	6
			% within Q2	.0%	100.0%	100.0%
	Total		Count	1	47	48
			% within Q2	2.1%	97.9%	100.0%
Ghana	Q2	Agriculture	Count	0	2	2
			% within Q2	.0%	100.0%	100.0%
		Industry	Count	4	22	26
			% within Q2	15.4%	84.6%	100.0%
		Services	Count	0	15	15
			% within Q2	.0%	100.0%	100.0%
	Total		Count	4	39	43
			% within Q2	9.3%	90.7%	100.0%

Table 3.6c Business sector, country of origin and Price instability: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	8.783(a)	2	.012
	N of Valid Cases	48		
Ghana	Pearson Chi-Square	2.884(b)	2	.236
	N of Valid Cases	43		

Why are there different results between the two countries despite the strong view expressed by these firms regarding the impact of price instability on their business? Firstly, Waugh (1966, P 508) argued that price stability, in itself, appears to be neither a virtue nor a vice, neither good nor bad, neither harmful nor beneficial. It all depends upon the level at which the price is stabilized and whether one is concerned with the welfare of the consumer or of the producer. Also, using the surplus approach, Mansell in Turnovsky et al. (1980, P 135) showed that, if both producers and consumers are considered in a closed model, society as a whole prefers price stability, with the gainers in principle being able to compensate the losers. However, in the absence of compensation, price stability is only potentially desirable, since one group may lose.

According to the European Central Bank, price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the Euro area of below 2 percent, excluding deflation. The best contribution that monetary policy can provide to economic growth is to maintain price stability with the following:

- Improve price transparency;
- Stable and low inflation support private consumption via its positive impact on the real value of households' income and wealth;
- Reduce the borrowing costs for individuals and firms;
- Inflation erodes the purchasing power of the nominal return on long-term loan contracts or bonds;
- High inflation results in less profitable investment projects so capital accumulation will be lower and the potential output growth rate is consequently reduced.

Secondly, in Cote d'Ivoire, inflation is generally low due to the monetary union in which its currency CFA Franc is pegged to the Euro so the inflation rate does not affect people's economic decisions. The country as well as businesses benefit from the policy of price stability set up by the European Union aimed to contain the rise in the price of imports from the euro area. The low inflation is believed to increase consumer confidence and establish credibility as well as reduced costs to business transactions and investment.

Conversely, any appreciation of the Euro exchange rate will lead to the appreciation of the CFA Franc, contributing to lowering the costs of imported goods making local products less competitive.

Aizenman (2003, P 596) argued that multinational firms opt to invest in more stable emerging market. High instability will induce multinationals to diversify the production locations.

Finally, the rising of inflation softens business and consumer confidence due to the rise of prices such as oil price. The economic boom, in less developed countries, such as China and India which, are now competing aggressively for oil and consumer goods in the global market place, drives the prices up. As a result, Ghana is trying to control price instability by adopting various methods such as increased credit to the private

sector by removing all controls like ceiling on commercial bank credit, regulation of the interest rates and removal of certain tax elements on basic consumable commodities.

8.1.4 Hypothesis 4: There is a correlation between exchange rate regime and company failure

This test reveals only one issue, the "local infrastructure" which is statistically significant.

In Table 4.1a, firms in both Cote d'Ivoire and Ghana were asked if they felt that the relationship between exchange rate regime and company failure led to local infrastructures. 61 of 100 firms or 61 percent agreed thus supporting the hypothesis.

Table 4.1a Local infrastructures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	25	25.0	25.0	25.0
	Moderately important	4	4.0	4.0	29.0
	Important	10	10.0	10.0	39.0
	Very important	61	61.0	61.0	100.0
	Total	100	100.0	100.0	

Table 4.1b shows the cross-tabulation between industry sector, country of origin and the view on the fact that exchange rate regime led to company failure and Table 4.1c the associated chi-square test. This test shows a significant association between business sectors and the view on local infrastructures in Ghana because these firms operate in a flexible exchange rate regime and face with competition from multinationals and low imports. While in Cote d'Ivoire, there is no significant association between the different variables.

Table 4.1b Business sector, country of origin and local infrastructures: cross-tabulation

Q3				Local infrastructures				
				Not important at all	Moderately Important	Important	Very important	Total
Cote d'Ivoire	Q2	Agriculture	Count	2	0	0	5	7
			% within Q2	28.6%	.0%	.0%	71.4%	100.0%
		Industry	Count	8	2	2	27	39
			% within Q2	20.5%	5.1%	5.1%	69.2%	100.0%
		Services	Count	3	0	1	7	11
			% within Q2	27.3%	.0%	9.1%	63.6%	100.0%
	Total		Count	13	2	3	39	57
			% within Q2	22.8%	3.5%	5.3%	68.4%	100.0%
Ghana	Q2	Agriculture	Count	0	1	0	1	2
			% within Q2	.0%	50.0%	.0%	50.0%	100.0%
		Industry	Count	7	1	3	15	26
			% within Q2	26.9%	3.8%	11.5%	57.7%	100.0%
		Services	Count	5	0	4	6	15
			% within Q2	33.3%	.0%	26.7%	40.0%	100.0%
	Total		Count	12	2	7	22	43
			% within Q2	27.9%	4.7%	16.3%	51.2%	100.0%

Table 4.1c Business sector, country of origin and Local infrastructures: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	1.937[a]	6	.925
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	12.564[b]	6	.051
	N of Valid Cases	43		

Ghanaian entrepreneurs expressed concern about local infrastructures especially the industry sector with 57.7 percent. Operating within a flexible exchange rate regime, they are exposed to fierce competition from multinationals and imported goods. These firms stressed that it is very important to work in an adequate and favourable locations with excellent transport connection, access to banking and information communication technology facilities. Thus, Robson and Obeng (2008, P 390) revealed that the closeness between firms and their customers can provide impetus for development due to the ease

with which the firm can identify customer needs. It is expected that those firms in conurbations encounter fewer barriers than other types of locations.

From their survey on 500 entrepreneurs in Ghana, they found that firms in the cities were more likely than those in small towns to have difficulty with the high cost of utility charges, a lack of industrial sites, and the low quality of electricity and water supply.

Thus, firms in conurbations may benefit from the closer presence of a larger customer base but the high number of firms and higher population result in problem and pressures associated with overcrowding – an infrastructure which is struggling to cope and may possibly in the future hinder the scope for development and growth (P 400).

8.1.5 Hypothesis 5: Fixed exchange rate regime and therefore the monetary union encourages international trade and investment for Ivorian businesses (Regional integration)

5.1 Encourages trade and financial flows

In Table 5.1a, firms in both Cote d'Ivoire and Ghana were asked if they felt that the monetary union encouraged trade and financial flows. 97 of 100 firms or 97.0 percent agreed, strongly supporting the hypothesis.

Table 5.1a Encourages trade and financial flows

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	1	1.0	1.0	1.0
	Less important	1	1.0	1.0	2.0
	Moderately important	1	1.0	1.0	3.0
	Very important	97	97.0	97.0	100.0
	Total	100	100.0	100.0	

Table 5.1b shows the cross-tabulation between industry sector, country of origin and the view on the fact that monetary union encouraged trade and financial flows and Table 5.1c the associated chi-square test. This test shows a significant association between business sectors and the view on encouraging trade and financial flows in Cote d'Ivoire because the country is part of WAEMU from which it is getting real benefits. While in Ghana, there is no significant association between the different variables.

Table 5.1b Business sector, country of origin and Encourages trade and financial flows: Cross-tabulation

Q3				Encourages trade and financial flows				
				Not important at all	Less important	Moderately important	Very important	Total
Cote d'Ivoire	Q2	Agriculture	Count		1		6	7
			% within Q2		14.3%		85.7%	100.0%
		Industry	Count		0		39	39
			% within Q2		.0%		100.0%	100.0%
		Services	Count		0		11	11
			% within Q2		.0%		100.0%	100.0%
	Total		Count		1		56	57
			% within Q2		1.8%		98.2%	100.0%
Ghana	Q2	Agriculture	Count	0		0	2	2
			% within Q2	.0%		.0%	100.0%	100.0%
		Industry	Count	1		0	25	26
			% within Q2	3.8%		.0%	96.2%	100.0%
		Services	Count	0		1	14	15
			% within Q2	.0%		6.7%	93.3%	100.0%
	Total		Count	1		1	41	43
			% within Q2	2.3%		2.3%	95.3%	100.0%

Table 5.1c Business sector, country of origin and Encourages trade and financial flows: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	7.270(a)	2	.026
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	2.533(b)	4	.639
	N of Valid Cases	43		

More efficient financial services available to countries with a fixed link to the Euro further encourage trade and investment. However, European financial markets are much more accessible and more liquid due to the fact that all the major financial instruments are listed in the Euro. More and more, CFA zone and developing countries in general, are adopting an open economy. So, the introduction of the Euro facilitated that option. However, liberal economic regime gave a prominent role to market forces and had

profound implications for macroeconomic policy management in general and for monetary and exchange rate policies in particular.

Ivorian firms gain easy access to the European capital market due to the peg between the Euro and the CFA Franc. According to Zafar (2008, P 5), the rationale of the CFA system is to maintain macroeconomic stability in West and Central Africa as well as strengthen trade and financial flows between Europe and the two zones by creating an environment with a stable exchange rate.

Trade liberalization is essential to enhancing global growth and poverty reduction. Given its benefit, developing countries reduce their trade barriers and provide real market access in goods and services to both developed and third countries. In fact, a developing country experiences higher levels of growth and development by opening its financial services sector to foreign direct investment (Snow, 2005, P 1 - 4).

For Ivorian businesses dealing with their European counterparts, there is lower commercial and currency transaction costs. These firms believe that transactions costs are lower for the country with fixed exchange rate regime, and this further encourages trade and investment compared to the country with a floating exchange rate regime. Many growing businesses need to export in order to expand output, increase productivity and spread risks. Through exporting, they are exposed to tougher competition and more demanding customers, which in turn improve their competitiveness.

This analysis is backed by various authors like Fiawoyife and Abor (2007, P 151). Their study reveals that firms engaged in international trade have difficulties in trading across borders. These difficulties include bureaucracies in obtaining trade documents, high tariffs, difficulties in pricing in foreign currencies, foreign exchange risks, smuggling, restrictions at border and problems of clearing goods at ports and harbours, unfair competition from informal traders and harassment by border officials.

These difficulties, the firms believe, would be reduced, if not, entirely removed by regional integration. Consequently, regional integration would provide enough incentives for increased participation in foreign trade and investment.

According to Dobson and Yui (1997, P 263 – 266), governments should bow to the market forces pushing integration by removing obstacles to intraregional trade flows. They should open domestic economies to allow for greater participation in the international (global) division of labour. They should cooperate in providing favourable conditions for investment, including the freer flow of product information and accelerated preferential trading arrangements and should cooperate to remove restrictions on new forms of firm cooperation, such as strategic alliances.

Multilateral measures are under active discussion within the WTO. Such measures would encourage governments to liberalize FDI regimes and converge toward common standards on right of establishment, fair and equitable treatment, protection against nationalization, international-dispute settlement, and assurances for the repatriation of earnings and capital. Capping fiscal and financial incentives to reduce distortions should also be considered.
The interests of multinationals are directly related to progress in these areas. When regional exports slow down in response to currency appreciation or slowing external demand, as they did in 1995 – 1996, multinationals run the risk of a hostile reaction to slower growth, blaming them for what, in reality, are cyclical fluctuations or the structural consequences of national trade and FDI policies.

They concluded that one of the main findings of their study is that East Asia's economic integration rests not only on its rapid growth and the proximity of diverse economies but also on firms cooperating successfully with governments. Multinational and international firms augment the growth of savings, jobs, and incomes, but their objectives will not always coincide with those of host governments. It is in the interests of both players to assist in achieving self-sustaining growth, which in turn depends heavily on productivity growth. Also, they find production networks contribute to regional integration, but this exchange of intermediate goods risks structural and cyclical vulnerability because final-goods markets, particularly at the high end, lie outside the region.

Furthermore, on one side, proponents of monetary integration reveal a positive combination of greater exchange rate stability, reduced transaction costs, enhanced competition deriving from price transparency and low real interest rates resulting from a successful anti-inflation strategy pursued by the central bank. On the other side, opponents posit that it will result in adjustment costs, together with the loss of monetary and exchange rate policy instruments, which is likely to increase instability among countries exposed to asymmetric external shocks beyond the capability of the central bank using only one policy instrument: interest rates.

In addition, the central bank may over-tighten its monetary policy in order to establish its anti-inflation credibility with financial markets, resulting in higher unemployment and a stagnant economy (Anyanwu, 2003, P 127 – 128).

5.2 Improving business competitiveness

In Table 5.2a, Ivorian and Ghanaian companies were asked if they felt that the monetary union improved business competitiveness. 94 of 100 firms or 94.0 percent agreed strongly supporting the hypothesis

Table 5.2a Improving business competitiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	1	1.0	1.0	1.0
	Moderately important	1	1.0	1.0	2.0
	Important	4	4.0	4.0	6.0
	Very important	94	94.0	94.0	100.0
	Total	100	100.0	100.0	

Table 5.2b shows the cross-tabulation between industry sector, country of origin and the view on improving business competitiveness and Table 5.2c the associated chi-square test. This test shows that there is significant association between business sectors and improving business competitiveness in Ghana due to massive low cost imports while in Cote d'Ivoire, the test shows no significant association between variables.

Table 5.2b Business sector, country of origin and Improving business competitiveness: Cross-tabulation

Q3				Improving business competitiveness				
				Not important at all	Moderately important	Important	Very important	Total
Cote d'Ivoire	Q2	Agriculture	Count	1	0	0	6	7
			% within Q2	14.3%	.0%	.0%	85.7%	100.0%
		Industry	Count	0	1	1	37	39
			% within Q2	.0%	2.6%	2.6%	94.9%	100.0%
		Services	Count	0	0	0	11	11
			% within Q2	.0%	.0%	.0%	100.0%	100.0%
	Total		Count	1	1	1	54	57
			% within Q2	1.8%	1.8%	1.8%	94.7%	100.0%
Ghana	Q2	Agriculture	Count			0	2	2
			% within Q2			.0%	100.0%	100.0%
		Industry	Count			0	26	26
			% within Q2			.0%	100.0%	100.0%

	Services	Count			3	12	15
		% within Q2			20.0%	80.0%	100.0%
	Total	Count			3	40	43
		% within Q2			7.0%	93.0%	100.0%

Table 5.2c Business sector, country of origin and Improving business competitiveness: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	8.158(a)	6	.227
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	6.020(b)	2	.049
	N of Valid Cases	43		

The European Union is Ghana's most important trading partner, accounting for between 40 and 50 percent of imports and exports (ITC, 2008). As a result, Ghanaian firms are benefiting from the performance of the Euro. Therefore, according to the European Economic and Social Committee (2004), European firms are heavily investing in the world, especially in the developing countries, contributing to the growth of these regions including Ghana and set up an example for development.

These firms have gained access to finance and develop tight link with their European partners. It is the consequence of trade liberalization and financial sector reforms engaged by Ghana since the 1980s which facilitate business environment improvement for businesses. Soderbom et al. (2006, P 553) argued that Ghana has introduced substantial reforms to liberalize a previously highly protected and public sector denominated economy. Those measures have particularly influenced the industrial sector including the introduction of a market based foreign exchange system, liberalization of trade policy, privatization of state-owned enterprises and fiscal reforms.

Furthermore, wealth is created at the microeconomic level in the ability of firms to produce valuable goods and services using efficient methods. It is only this way that a nation can support high wages and the attractive returns to capital necessary to support sustained investment. The microeconomic foundations of productivity rest on two interrelated areas: the sophistication with which domestic companies or foreign subsidiaries operating in the country compete and the quality of the microeconomic business environment. Increasing productivity through more sophisticated ways of competing depends on parallel changes in the microeconomic business environment including the quality of factor (input) conditions, the context for firms' strategy and rivalry, quality of local demand conditions and the presence of related and supporting industries.

By confirming these assertions, Mesquita & Lazzarini (2008, P 359) integrate the resource-based view, transaction cost economics, and institutional theory to model how collaboration among small-to-medium-sized enterprises (SMEs) in environments of

weak infrastructure and institutions help them achieve greater collective efficiencies and access to global markets.

To them, in most developing economies, firms are urged to become internationally competitive to boost exports and decrease country risk exposure; at the same time, these firms tend to be deprived of the superior technology and supporting infrastructure often found in developed countries, such as government support, efficient ports, shared scale-efficient resources that would ease reaching global markets. Ironically, although forging interorganizational collaborative arrangements appears to be critical for SMEs in weak infrastructure settings, it is precisely in those countries that firms also suffer from a host of institutional failures, such as poor legal systems, discretionary governmental policies, and inefficient regulation, that hinder the pursuit of joint action and impose high investment uncertainty and exchange hazards.

Ghanaian firms viewed that a monetary union will bring to their enterprises more choices and business opportunities which will be stronger and more competitive by:

- Reducing exchange rate risk so that they may have access to financial instruments to hedge against currency movements;
- Increasing competition in the banking industry and lower interest rates so that firms can finance their operations at a much more favourable cost.

Also, these firms felt that the union area will become a domestic market where they have the possibility to sell their products and services across a wider area (economies of scale) to large potential customers. Therefore, firms are encouraged to incorporate innovation and new technical solutions into their business strategies to their own benefit and the benefit of the entire union economy.

5.3 Sizeable and unified market favourable to trade and investment

In Table 5.3a, Ivorian and Ghanaian firms were asked if they felt that the monetary union provided a sizeable and unified market favourable to trade and investment. 87 of 100 firms or 87.0 percent agreed strongly supporting the hypothesis.

Table 5.3a Sizeable and unified market favourable to trade and investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important at all	1	1.0	1.0	1.0
	Moderately important	6	6.0	6.0	7.0
	Important	6	6.0	6.0	13.0
	Very important	87	87.0	87.0	100.0
	Total	100	100.0	100.0	

Table 5.3b shows the cross-tabulation between industry sector, country of origin and the view on that monetary union provided a sizeable and unified market favourable to trade and investment and Table 5.3c the associated chi-square test. This test reveals that there is significant association between business sectors and the view on sizeable and unified market favourable to trade and investment in Cote d'Ivoire given its membership to WAEMU while in Ghana there is no significant association between the variables.

Table 5.3b Business sector, country of origin and Sizeable and unified market favourable to trade and investment: Cross-tabulation

Q3				Sizeable and unified market favourable to trade and investment				
				Not important at all	Moderately important	Important	Very important	Total
Cote d'Ivoire	Q2	Agriculture	Count	1	0	0	6	7
			% within Q2	14.3%	.0%	.0%	85.7%	100.0%
		Industry	Count	0	1	2	36	39
			% within Q2	.0%	2.6%	5.1%	92.3%	100.0%
		Services	Count	0	2	1	8	11
			% within Q2	.0%	18.2%	9.1%	72.7%	100.0%
	Total		Count	1	3	3	50	57
			% within Q2	1.8%	5.3%	5.3%	87.7%	100.0%
Ghana	Q2	Agriculture	Count		0	0	2	2
			% within Q2		.0%	.0%	100.0%	100.0%
		Industry	Count		3	0	23	26
			% within Q2		11.5%	.0%	88.5%	100.0%
		Services	Count		0	3	12	15
			% within Q2		.0%	20.0%	80.0%	100.0%
	Total		Count		3	3	37	43
			% within Q2		7.0%	7.0%	86.0%	100.0%

Table 5.3c Business sector, country of origin and Sizeable and unified market favourable to trade and investment: Chi-Square Tests

Q3		Value	df	Asymp. Sig. (2-sided)
Cote d'Ivoire	Pearson Chi-Square	12.594(a)	6	.050
	N of Valid Cases	57		
Ghana	Pearson Chi-Square	7.688(b)	4	.104
	N of Valid Cases	43		

The European Union has unified 27 different markets providing great potential to Ivorian firms. These firms have the opportunity to penetrate any European markets and sell their products to more than 300 million people. They can invest in the European financial market and/or raise capital for future business expansion. Also, any European firms can work closely with their Ivorian counterparts or set up their own business to promote their products as well as their expertise.

The Euro is set to be a mean of payment for all these firms operating in the two systems, thereby reducing exchange rate risks and transaction costs. According to Akamavi et al. (2004, P 462), tied to the Euro with its convertibility guaranteed, the CFA Franc has the strength of the world's largest market bloc behind it. This is an incentive for increasing investment from all over Europe and further diversification from traditional French investors.

In the WAEMU region, foreign exchange controls were abolished, making financial integration much easier so that capital can move around, opening up the financial market of all member countries to all the banks.

Many regulations are harmonized so that firms can produce to specifications common to all member states. This means that products are standardized, removing many non-tariff barriers to trade.

Conclusion

Our studies show that the variable 'country of origin' is very important as the significant relationship between different variables depends whether the firms are based in Cote d'Ivoire or Ghana. We find that the only issue commonly important for both countries is research and development, even though it is more highly significant in Cote d'Ivoire than Ghana. It is due to the fact Cote d'Ivoire is much more advanced economically than Ghana. Ivorian firms are investing considerable funds for research and development to cope with huge demand from the highly educated and sophisticated customers locally and other CFA Franc states. Given the development of infrastructure, the Ivorian firms have the potential and opportunities to cover the entire region.

8.2 SURVEY ANALYSIS USING CORRELATION

The most familiar measure of dependence between two quantities is the Pearson product-moment correlation coefficient, or "Pearson's correlation." It is obtained by dividing the covariance of the two variables by the product of their standard deviations.

The Pearson correlation is defined only if both of the standard deviations are finite and both of them are nonzero. It is a corollary of the Cauchy–Schwarz inequality that the correlation cannot exceed 1 in absolute value. The correlation coefficient is symmetric: corr(X,Y) = corr(Y,X).

The Pearson correlation is +1 in the case of a perfect positive (increasing) linear relationship, −1 in the case of a perfect decreasing (negative) linear relationship [5], and some value between −1 and 1 in all other cases, indicating the degree of linear dependence between the variables. As it approaches zero there is less of a relationship. The closer the coefficient is to either −1 or 1, the stronger the correlation between the variables.

If the variables are independent, Pearson's correlation coefficient is 0, but the converse is not true because the correlation coefficient detects only linear dependencies between two variables. For example, suppose the random variable X is symmetrically distributed about zero, and $Y = X^2$. Then Y is completely determined by X, so that X and Y are perfectly dependent, but their correlation is zero; they are uncorrelated. However, in the special case when X and Y are jointly normal, uncorrelatedness is equivalent to independence.

If we have a series of n measurements of X and Y written as x_i and y_i where i = 1, 2, ..., n, then the sample correlation coefficient, can be used to estimate the population Pearson correlation r between X and Y. The sample correlation coefficient is written

$$r_{xy} = \frac{\sum_{i=1}^{n}(x_i - \bar{x})(y_i - \bar{y})}{(n-1)s_x s_y},$$

where x and y are the sample means of X and Y, s_x and s_y are the sample standard deviations of X and Y.

This can also be written as:

$$r_{xy} = \frac{\sum x_i y_i - n\bar{x}\bar{y}}{(n-1)s_x s_y} = \frac{n\sum x_i y_i - \sum x_i \sum y_i}{\sqrt{n\sum x_i^2 - (\sum x_i)^2}\ \sqrt{n\sum y_i^2 - (\sum y_i)^2}}.$$

The correlation test reveals the results below:

2.1 Correlation between exchange rate regime and firm characteristics

RCI

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
13a: Intermediate goods	Pearson Correlation	.310*	-.335*	
	Sig. (2-tailed)	.032	.028	n/a
	N	48	43	
13b: Consumer goods	Pearson Correlation	-.421**	.351*	.293*
	Sig. (2-tailed)	.003	.021	.028
	N	48	43	56

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
14a: Products are produced by own company	Pearson Correlation	-.287*		
	Sig. (2-tailed)	.048	n/a	n/a
	N	48		
14c: Company distributes imported goods	Pearson Correlation	-.334*		
	Sig. (2-tailed)	.020	n/a	n/a
	N	48		

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

Ghana

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
9: Company size	Pearson Correlation		.376*	
	Sig. (2-tailed)	n/a	.034	n/a
	N		32	

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

From a series of studies, there is exposure of exchange rate regime across industries and firm attributes. As result, large firms, firms with high export rates, firms with large foreign ownership as well as those involved in distributing imported goods, are more exposed to exchange rate fluctuations than other firms. Especially, in Ghana, the exchange rate issue depends on the size of the company due the fact that the country opted for flexible exchange rate regime.

This is confirmed by Broz et al. (2007, P 4) argue that little academic work directly addresses the exchange rate attitudes to business owners operating in different sectors of the economy. By contrast, there is a large body of work that examines sectoral and factoral attitudes towards trade policy. Using firm-level data from the World Bank's World Business Environment Survey (WBES), Broz and his team find systematic patterns linking sector of economic activity to exchange rate policy positions. Such analyses typically present that international oriented firms will be especially averse to the volatility associated with a floating rate and will therefore prefer a fixed exchange rate. They also typically suggest that tradable producers will be particularly averse to the relative price effects of a real appreciation. Nontradable producers, conversely, are expected to prefer floating rates and an appreciated currency (P 23).

Fiawoyife & Abor (2007, P 144) reveals that firms engaged in international trade have difficulties in trading across borders. These difficulties include bureaucracies in obtaining trade documents, high tariffs, difficulties in pricing in foreign currencies, foreign exchange risks, smuggling, restrictions at border and problems of clearing goods at ports and harbours, unfair competition from informal traders and harassment by border officials.

Dahlquist, Magnus and Robertsson, G¨oran (2001, P 2) conducted a survey on 352 individual Swedish firms exposure on both an aggregated exchange rate index and to individual currencies. They find that large firms, firms with high export rates, and firms with large foreign ownership are more exposed to exchange rate fluctuations than other firms. However, firms in these groups show both negative and positive exposure,

suggesting that exposure is reduced through diversification, even among firms with similar attributes. Nevertheless, we find that exchange rate exposure disappears even when forming portfolios of firms with similar attributes.

Following a textbook treatment, it can be categorized into economic exposure and translation exposure. Economic exposure is defined as the effect on a firm's cash flows, and can in turn be divided into transaction exposure and operating exposure.

Transaction exposure is the exposure that a firm is subject to when it has entered a contract denominated in a foreign currency but which is to be settled at a future date.

On the other hand, translation exposure (or accounting exposure) arises as a result of translating the financial statements of a foreign subsidiary into the reporting currency of the parent company to prepare consolidated financial statements.

Even firms with no foreign transactions are subject to operating exchange rate exposure for two reasons. The first reason is that competitiveness is altered when exchange rates change. This affects earnings for firms that have foreign competitors, leading to an increase in firm value when a depreciation of the domestic currency occurs. The second reason is valid even for firms that have no foreign competitors since exchange rate changes may affect the prices of inputs. For example, if the domestic currency depreciates, the export industry does well. This means that exporting firms have a higher demand for inputs, which may result in higher prices (P 4).

2.2 Correlation Exchange rate – company competitive advantage

RCI

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
17c: Technological efficiency	Pearson Correlation	-.431**	.439**	
	Sig. (2-tailed)	.002	.003	n/a
	N	48	43	
17d: Quality of customer services	Pearson Correlation			.333*
	Sig. (2-tailed)	n/a	n/a	.012
	N			56
17e: Product costs	Pearson Correlation			.373**
	Sig. (2-tailed)	n/a	n/a	.005
	N			56
17i: Financial resources and capital assets	Pearson Correlation			.370**
	Sig. (2-tailed)	n/a	n/a	.005
	N			56
17k: Marketing research and customer intelligence	Pearson Correlation	-.308*		
	Sig. (2-tailed)	.033	n/a	n/a
	N	48		
17l: Research and development	Pearson Correlation			.313*
	Sig. (2-tailed)	n/a	n/a	.019
	N			56

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

Note: there is no correlation between the different variable in Ghana

This correlation covers the issues of technological efficiency, product costs, financial resources and capital assets, marketing research and customer intelligence and research and development.
According to Mesquita & Lazzarini (2008, P 359), in most developing economies, firms are urged to become internationally competitive to boost exports and decrease country risk exposure; at the same time, these firms tend to be deprived of the superior technology and supporting infrastructure often found in developed countries, such as government support, efficient ports, shared scale-efficient resources that would ease reaching global markets. They found that different types of ties matter in different ways for these SMEs' collective efficiencies. For instance, vertical ties yield manufacturing productivity along the supply chain, while horizontal ties enable collective resource use

as well as joint product innovation. These collective efficiencies, in turn, serve as competitive currencies helping SMEs access global markets.

Again, Chelariu et al. (2002, P 457) examine two issues related to the implementation of market orientation among sub-Saharan African firms especially Cote d'Ivoire. They stress that Ivorian firms can, potentially, compete in world markets with appropriate market-oriented strategies.

The findings of their study show that Ivorian firms must realign structural influences, systems and incentives to reflect both the objectives of the firm and to be sensitive to local conditions. However, factors such as lack of marketing skills, lack of financial resources and government intervention like price controls, are likely to be important deterrents in implementing market orientation (P 467)

2.3 Correlation Exchange rate-Company success – Company strategy and decision-making

RCI

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
18b: Cultural aspects	Pearson Correlation		-.395**	
	Sig. (2-tailed)	n/a	.009	n/a
	N		43	
18i: Product diversification	Pearson Correlation	-.322*	.369*	
	Sig. (2-tailed)	.026	.015	n/a
	N	48	43	
18n: Research and development policy	Pearson Correlation			.294*
	Sig. (2-tailed)	n/a	n/a	.028
	N			56
18s: Service to the community and the country	Pearson Correlation		.349*	
	Sig. (2-tailed)	n/a	.022	n/a
	N		43	
19c: Local social values and customs	Pearson Correlation		-.344*	
	Sig. (2-tailed)	n/a	.024	n/a
	N		43	

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

Ghana

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
18c: Local infrastructures	Pearson Correlation		.417*	
	Sig. (2-tailed)	n/a	.016	n/a
	N		33	
18i: Product diversification	Pearson Correlation	-.534**		
	Sig. (2-tailed)	.001	n/a	n/a
	N	36		
18n: Research and development policy	Pearson Correlation		.474**	
	Sig. (2-tailed)	n/a	.005	n/a
	N		33	
18r: Excellent public relation	Pearson Correlation	-.509**		
	Sig. (2-tailed)	.002	n/a	n/a
	N	36		

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

No correlation between exchange rate and company strategy and decision-making.

This relationship is mainly based on non-technical issues such as cultural aspects, services to the community, local social values and customs, local infrastructures and excellent public relation including product diversification and research and development. As a result, Dobson & Yui (P 263 - 266) reveal that the first implication for trade and investment, concerns international firms' impact on regional integration. The impact is mixed. Firms investing from within the region are more likely to contribute to intraregional trade than those investing from outside the region. Most international firms, as they mature, aspire to global strategies; hence, intraregional production and trade tend to be organized or, at least, to be rationalized within a global rather than strictly regional division of labour.

The second implication is directly related. The close ties between the regional activities of multinationals (and those of the larger regional firms) and their global strategies have important implications for governments' roles in influencing locational advantages. In a number of countries, the domestic market is still not fully open. Firms in Thailand surveyed by Ramstetter, for example, saw the lack of transparency in import regulations as a persistent problem. Governments continue to rely on more direct interventions in the forms of fiscal incentives and performance requirements.

2.4 Exchange rate - company failure

RCI

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
16b: Poor raw material flows / supplies	Pearson Correlation			.276*
	Sig. (2-tailed)	n/a	n/a	.040
	N			56
16d: Competitive threats from multinationals	Pearson Correlation	-.341*		
	Sig. (2-tailed)	.018	n/a	n/a
	N	48		

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

GHANA

		24a: Currency pegged to major international currencies	24b: Completely flexible exchange rate	24c: International trade and finance in term of industrial countries monies
16g: Scarcity of qualified workers	Pearson Correlation	.357*		
	Sig. (2-tailed)	.032	n/a	n/a
	N	36		
16i: Local infrastructures	Pearson Correlation	.387*		
	Sig. (2-tailed)	.020	n/a	n/a
	N	36		
16k: Bureaucracy burdens	Pearson Correlation			-.344*
	Sig. (2-tailed)	n/a	n/a	.026
	N			42

*. Correlation is significant at the 0.05 level (2-tailed)
**. Correlation is significant at the 0.01 level (2-tailed)

This correlation includes diverse issues such as poor raw materials flows and supplies, competitive threats from multinational, scarcity of qualified workers, local infrastructures and bureaucracy burdens. These issues are covered by Dobson and Yui (1997). To them, international firms create linkages across borders in their search for profitable opportunities through trade, foreign direct investment (FDI), technology contracts, and other arrangements that provide flexibility needed to adjust to change and uncertainty in increasingly competitive factor and product markets (P 3). Dobson et al. found that the impact of the regional integration leads to a high degree of intrafirm trade. Intrafirm trade increases because of disintegration of numerous discrete value-chain activities within the firm to reduce transaction costs. Also, it is a positive

development in economies pursuing industrial upgrading and enables East Asian economies to embark on export manufacturing without having to undergo a lengthy and costly period of building up technological, exporting, and marketing capabilities.

From the perspective of the international firm, intrafirm trade ensures greater control over both upstream suppliers and downstream markets, particularly in business environments characterized by diverse political, economic, and legal frameworks. But the use of local suppliers, as well as the transfer of technology and industrial know-how from foreign investors to local firms, has been slow because it raises transaction costs, particularly among the less-internationalized firms. The more experienced the international firm is, the more it is capable of locating and using local suppliers (P 263-266).

Also, to Fiawoyife & Abor (2007, P 151), firms engaged in international trade have difficulties in trading across borders. These difficulties include bureaucracies in obtaining trade documents, high tariffs, difficulties in pricing in foreign currencies, foreign exchange risks, smuggling, restrictions at border and problems of clearing goods at ports and harbours, unfair competition from informal traders and harassment by border officials.

These difficulties, the firms believe, would be reduced, if not, entirely removed by regional integration. Consequently, regional integration would provide enough incentives for increased participation in foreign trade and investment.

9.0 CONCLUSION

9.1 Conclusion

The main focus of the thesis has been to highlight the challenges facing Ivorian and Ghanaian firms operating internationally. Consequently, we stress the impact of the exchange rate regime on a company's success in West Africa and how a monetary union is an interesting framework for these firms.

To achieve the above objective, we defined the different monetary unions and identified their main characteristics or features. The costs and benefits of joining a monetary union have been reviewed and it is noticed that in the case of WAEMU, the decision to set up a currency union was more political than economic. It has been concluded that Western African countries are not doing well despite regular and profound macroeconomic policy reforms and some political will and commitments.

The CFA zone comprising 14 countries in West and Central Africa was set up by France, their colonial master. As result, their common currency was not traded on foreign exchange markets but fully convertible into the French Franc guaranteed by the French Treasury through a special operations account at the Banque of France. According to Stephen Dearden (1999), the operations account can run into deficit and more effectively offer unlimited overdraft facilities. This allows the CFA states to avoid short run balance of payments constraints. In return, the two CFA zone central banks are required to deposit 65 percent of the foreign exchange reserves in their accounts. Also, the French authorities participate in monetary policy formulation for the whole zone. The central feature of Cote d'Ivoire's economic policy is the pegged exchange rate regime whereby monetary policy is determined by the regional central bank (BCEAO). As a result, the government relies on fiscal policy as its main policy instrument. Fiscal policy has been and still the main source of disagreement with the International Monetary Fund; particularly at period of political crisis when the country accumulates domestic and external payment arrears. The government focuses on the most urgent and politically sensitive obligations, which are, paying civil service wages with other matters taking lower priority. It boosts its revenue by getting a solidarity levy on salaries, a series of new licences and fees for various activities and by efforts to improve tax collection. Helped by the reunification of the country since 2006, the

economy is recovering with the increased in private sector confidence and investment and the ongoing rehabilitation of public infrastructures.

Comparatively, in the 1980s, the Ghanaian government launched a comprehensive economic recovery programme backed by the IMF and the World Bank, with the objective of reducing macroeconomic imbalances and carrying out structural reform of the economy. The policies and programmes set up established fiscal and monetary discipline and exchange rate liberalisation. The financial sector was also liberalised, ending government participation in banking and clearing bad loans from banks balance sheets. As result, competition was increased in the banking sector leading to innovation in the financial environment.

Since its return to multiparty democracy in 1992, the government has continued with its economic reforms more slowly than donors and local business would have liked. Also, the financial sector has been reformed so that it can play a greater role in private sector development. In its most recent assessment (2003-2006), the IMF was relatively positive about the government's performance particularly its commitment to policy implementation which contributed to the country's strong economic performance in recent years. Under the present government's declared era of 'the Golden Age of Business', the need for a vibrant private sector to act as the engine of growth has even gained more recognition (Fening et al., 2008, P 694).

Moreover, the Ghanaian central bank is aware that high interest rates are hurting the private sector and therefore has a bias towards easing monetary policy in the hope that commercial banks will lower their lending rates which will encourage borrowing and investment.

The last few years have seen the need to create a monetary union in the sub-region, the West Africa Monetary Zone (WAMZ) as a necessary step to increase intra-regional trade, catalyse foreign investment and stimulate economic growth (Fiawoyife & Abor, 2007; Masson, 2008). That first stage will lead to a combination of the two monetary unions (WAEMU and WAMZ) aims to boost the economy of member states, build up strong political commitment as well as macroeconomic policy credibility and strategies to cope with asymmetric shocks. However, it is hoped, monetary union in Africa will accelerate the process of macroeconomic stability by strengthening national programmes of macroeconomic management, including price and exchange rate

stability and enhance monetary stability, with strict budgetary discipline and stronger growth performance. In fact, it has stated that monetary union among developing countries will encourage the mobilization, the management and the efficient contribution of human and financial resources. In Africa especially, the opportunities are so limited that these resources are diverging to developed economies such as France, Switzerland and the UK, called capital flight therefore there is great need to tighten economic and monetary integration among African countries. Generally, those countries have to set up strong regional institutions integrating their economies including the removal of trade barriers, diversifying exports, tax reforms, encouraging economies of scale and innovations, developing infrastructures, improving the business environment and greater transparency in the legal and regulatory system, liberalizing investment and fewer restrictions on profit, strengthening banking and financial systems and social policies. Furthermore, the world economy witnessed increased effort to create an economic and monetary union resulted in a strong improvement in economic performance, rapid technological advancement and strong influences on global economic issues. The case of the European monetary union is a good example for its African counterparts. With monetary and economic integration, African countries could reduce debts burden and resources flows and control the decline of commodity prices. They could also benefit from the reform of the international financial system. For African nations today, economic and monetary integration is not a choice but a necessity due to external shocks, external public debts and internal credit.

As discussed in Chapters 6, 7 and 8, the benefits of a monetary union are numerous at the microeconomic level. However, the creation of a single currency contributes to economic efficiency resulting in the elimination of transaction costs associated with the exchange of national currencies and risks coming from the uncertain future movements of the exchange rate. It is also resulting in lower transaction costs associated with trading goods and assets in different currencies which, in turn, enhances trade and therefore generates higher benefits from economic specialisation. That elimination of transaction costs reduces price discrimination across national markets. Mordi (2002) argued that monetary union can provide a stimulus to growth and employment. It will promote investment and employment in two ways: firstly, because it is based on a solid economic framework that puts public sector deficits under control and secures price stability. It will foster trade, improve the allocation of resources, encourage increased

savings, enhance growth and in the end create more employment and higher living standards. Second, the common central bank will have the means to fulfil its primary objective of ensuring price and monetary stability throughout the union; it will foster market confidence, which in turn should lower interest rates, especially long term rates.

Although this thesis provides a detailed analysis of business operations in Cote d'Ivoire and Ghana, the author can conclude systematically that being part of monetary union is of benefit to West African companies. From the survey, we find different results using different statistical tools. By using the comparative descriptive statistics and difference of means tests, it is strongly suggested that West African firms would benefit from operating within a monetary union. Both Ivorian and Ghanaian firms strongly agree that the following issues impact their business operations: convertibility, exchange rate volatility, lower inflation and interest rate, transaction costs, price stability, capital inflows and integration between countries in the region.

Also, by using frequency, cross-tabulation, chi-square tests and correlation tests, there are significant differences between Ivorian and Ghanaian firms despite the tremendous similarity economically, socially and culturally of the two countries. However, Ivorian businesses have the potential and opportunities to compete internationally better than their neighbouring counterparts. As argued, Chelariu et al. (2002, P 458) find that the Ivorian level of GDP per capita is one of the highest in Sub-Saharan Africa, implying the presence of a significant proportion of consumers with substantial purchasing power. Consequently, these firms can benefit from being market-oriented. They add Cote d'Ivoire has a long history of positive net trade accounts with the rest of the world, primarily with European and US markets, a feat that is rare in Africa. This implies that Ivorian firms can, potentially, compete in world markets with appropriate market-oriented strategies.

Two major issues are extremely significant to Ivorian and Ghanaian firms deeply developed across chapters 6 and 8:

- Socio-political instability
- Research and development

Firms can only expand within a stable economic and socio-political environment released from the enormous rebellions, coups and demonstrations seen in both countries.

Again, firms need to invest in research and development, the engine for their expansion in particular and the whole nation in general.

Finally, our analysis reveals the majority of issues covered by various authors and researchers worldwide. Therefore, there are similarities between our study and modern literature. But, there are limitations to our study. However, these limitations result directly from the way the research questions have been framed and the definition of the scope of the research. Firstly, the domaine of our study is developing countries especially two West African countries sharing the same border, Cote d'Ivoire and Ghana. But, we stress that the study can be generalize to other African states due to their similarities at political, cultural and socio-political levels. Secondly, we limit the study to a particular time period. The survey is conducted between 2002 and 2004; and the whole theoretical aspects of the subject cover the period 1960 – 2006. We believe that with globalization, the business world changes dramatically coupled with liberalization policies across all sectors of the economy of developing countries.

A significant number of economists encounter the same issues. Doh et al. (2004, P 246) reveal that the domaine of their study is emerging markets and also limit their research to a particular time period between 1990 and 1998. Given its exploratory nature, the study was limited to one Sub-Saharan African low-income emerging economy, Ghana. Although the business and economic environmental conditions in Ghana such as the implementation of economic liberalization and privatization policies, and increasing competition would lend support to the generalizability of the findings to other low-income Sub-Saharan African countries. However, whether the findings can be generalized to international joint-ventures operating in the low-income emerging economies of Asia, Latin America, and Central and Eastern Europe is an empirical question. Clearly, replication of the study in different national environments in Sub-Saharan Africa and other emerging economies is warranted (Acquaah, 2009, P 58)

In line of micro-effects of macro policies, Dobson & Yui (1997, P 263) argued that government incentives and subsidies that attract investment from one location to another that would otherwise have taken place on the grounds of transaction costs alone represent (1) transfers from taxpayers in the country providing the subsidy to the firm and its shareholders and (2) compensation of the firm for increased costs and reduced overall efficiency. Also, governments should be moving toward framework policies that

create new endowments, of skilled labour for example, through policy shifts from mere removal of illiteracy and supply of vocational education to the supply of education for technical and engineering labour and information technology.

We can now admit that it is quite difficult to find strong academic researches covering comparative studies on two African countries especially Cote d'Ivoire and Ghana and also discussing micro effects of macro policies using the same methodology we applied. Furthermore, some questions will be removed from the questionnaire to make it concise and focus.

9.2 Contribution to knowledge

The original contribution to knowledge is the focus on the integration issues in West Africa based on a qualitative assumption that monetary union has a contribution to make in resolving the various African development issues.

More than two hundred questionnaires were sent out of which one hundred were completed (57 for Cote d'Ivoire and 43 for Ghana) and statistical tools are used for an analysis of findings. As a result, we notice how important is for companies to operate within a monetary union for Ivorian firms and more and more Ghanaians. Firstly, a monetary union involves two major elements which are:

- An exchange rate union for example an area within which exchange rates have a permanently fixed relationship to each other even though the rates may vary relative to non-union currencies.

- Convertibility: the permanent absence of all exchange controls whether for current or capital transactions within the area.

Secondly, the benefits of monetary union are that it reduces transactions costs through the reduction of speculative capital flows and the elimination of the costs of currency conversion and hedging of exchange rate risks. Also, a monetary union increases trade and investment by reducing exchange rate uncertainty and risks. Finally, it enhances policy discipline and credibility thus reducing country risks premium and increasing private capital flows and domestic economic activity.

As result, since 2000, various monetary integrations have taken place. In West Africa, the West African Monetary Zone (WAMZ) is set up by Nigeria, Ghana, Guinea, Gambia, Sierra Leone and Liberia which is making slow progress but the different governments are very determined to push ahead. Later, it is intended that WAMZ will merge with the existing West African Economic and Monetary Union in order to create a West Africa single currency. Consequently, the concept emerges of a powerful integration between African countries positioning themselves in the global Economy. Like the European Monetary Union, Africa with its wealthy potential will contribute much more to the world economy.

Furthermore, the choice of fixed exchange rate regime or the adoption of a common currency, the pooling of foreign exchange resources, a common central bank, factor mobility and harmonization of monetary, fiscal and credit policies are features of a durable monetary union. Although the financial sovereignty is determined by the common central bank, it is sometimes difficult for individual member states to control economic shocks. Their budget deficits may be reduced by improving fiscal positions, the price transparency may increase competition and most importantly, the intra-regional trade is expected to increase.

More and more, African leaders are focusing on integration as a way to promote the economic and political development of the continent but they need a strong political commitment. The establishment of a monetary union in the region is part of a general effort by African leaders to integrate the region with a view to enhancing trade and ultimately improve living conditions on the continent.

That idea of monetary union has been reinforced by the successful launching of the Euro in 1999 and the severe economic costs of the spate of currency crisis experienced in Western Europe, Mexico and East Asia in the 1990s.

The contribution to knowledge comes from the examination of the experience of Ivorian firms in a monetary union linked to the Euro zone and those that are not, the Ghanaian ones. Information has been collected on a range of commercial aspects. This provides the basis for an evaluation of the benefits and costs of links to a single currency zone in a variety of world economic environments. Given the numerous socio-political and military instability seen in West Africa, businesses are better off operating within a monetary union. Thus, they have the opportunity to easily strengthen their activities

across borders. Different studies concluded that Ghanaian companies are largely aware of the creation of a monetary union for the sub-region and its implications for firms' growth (Fiawoyife & Abor, 2007, P 151).

9.3 Recommendation

Both Cote d'Ivoire and Ghana have introduced substantial reforms since the 1980s. Both have undertaken a large number of policy and regulatory changes to liberalize a previously highly protected and public sector denominated economy. Measures which have impacted upon all business sectors including the introduction of a market based foreign exchange system, liberalisation of trade policy, privatisation of state-owned enterprises and fiscal policy reforms. Overall, the Ivorian economy performs well above that of Ghana which can do better within a monetary union therefore currency union is recommended for the whole region. Different studies including this study reveal that Ghanaian firms are well-aware of the benefits of a monetary union. As a result, more attention is focused on the creation of WAMZ leading to a monetary union for the sub-region and its implications for firms' growth. Therefore, there is great need to intensify public awareness on the issue and conduct in-depth research to minimize the adverse socio-economic impacts associated with monetary unions. Despite the loss of monetary and exchange rate policy instrument which is likely to result in instability among member states, the advantages of a currency union are enormous. Monetary union seems the logical way to boost inter-regional trade and investment through the reduction of transaction costs and the removal of the imbalances associated with flexible exchange rate regime, free labour mobility, price transparency, policy discipline and credibility and finally, improved access to international financial markets.

9.4 Future research

An interesting research project would be to replicate this study to other Sub-Saharan African countries including Nigeria and South Africa as little has been done to investigate the deep impacts of the exchange rate regime on African businesses.

The author is also passionate about conducting a research on community development in Africa inspired by the example of Grameen Bank in Bangladesh funded by Professor Muhammad Yunus, Nobel Economic Prize, and how the case can be duplicated in Africa.

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UNIVERSITY OF WESTMINSTER

APPENDIX 1

Michael Hodd
Professor of Economics

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25 January 2001

Mr Sika Bernadin Atsin

Mr Atsin is a Research Student at the University of Westminster on the MPhil/PhD programme under my supervision.

He is preparing his thesis on the impact of the European Single Currency in business enterprises in Ghana & Cote d'Ivoire

We will be very pleased if you could give him such help and assistance in obtaining information as he may require.

At this stage, it looks as though the thesis will be a valuable contribution to the understanding of currency arrangements on enterprises in the context of increasing global interdependence.
We will be pleased to make the results of the research available to you when the work is completed.

Yours sincerely,

Michael Hodd

Michael Hodd
Professor of Economics

Finance & Business Law, Human Resource Management **WESTMINSTER BUSINESS SCHOOL**
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RESEARCH QUESTIONNAIRE

FIRM-LEVEL RESPONSES TO MONETARY UNION AND EXCHANGE RATE REGIME. EVIDENCE FROM COTE D'IVOIRE AND GHANA

This survey work is part of an academic research leading to a PhD degree in Economics at the University of Westminster, London, United Kingdom. The objective of this thesis is to analyse the impact of the monetary union and exchange rate regime on a company success in West Africa.

Please tick the appropriate box that is relevant to you. Please do not leave any questions unanswered. If you have any suggestions, please feel free to use spaces below for comments.
For the scales: 1- strongly disagree, 2- slightly disagree, 3- neutral, 4- slightly agree, 5- strongly agree but this answer may vary according to the wide range of questions.

Section 1: Basic details

1. Company name:…….

2. Nature of Business:……..

3. Where is the company registered? ……

4. Does it have any subsidiaries?……...

5. Please, list areas of business and locations of subsidiaries

6. Number of: local staff…… ☐
   Expatriates……. ☐ in 2004

7. Number of employees: 0 - 10 ☐ 20 - 50 ☐ 50 & over ☐

8. Type of employment

%	Permanent	Temporary	Contract

9. Company's size: small ☐ medium ☐ large ☐

10. How long has the company been established?

1 - 5yrs ☐ 5 - 10yrs ☐ 10 - 20yrs ☐ 20yrs & over ☐
Creation date:…….

Section 2: Markets/ market forces

11. What are the company's main products?

a) ……
b) ……
c) ……
d) ……
e) ……
f) ……
g) ……
h) Other(s)…….

12. What share of the market does your main product have?

☐ %

Comments: If you produce a range of products (say pharmaceuticals), indicate your size in relation to your main competitors (e.g. third biggest in country).

13. What kind of products does your company manufacture and percentage?

a) Intermediate goods ☐
b) Consumer goods ☐
c) Capital goods ☐

14. What is the company' s production / operation network?
1.All 2.Some 3.None

	1	2	3
a) Products are produced by own company			
b) Products are produced in other affiliates locally Or internationally			
c) Company distributes imported goods			

15. Does your company focus on a niche market related to a particular age group?

0–20 years ☐ 20-40 years ☐ 40 years- over ☐ all ☐ not all ☐

Section 3: Financial details

16. In your opinion, what are the causes of company failures in your industry?
1. Not important at all 2. Less important 3. Moderately important 4. Important 5. Very important

	1	2	3	4	5
a) Lack of responsiveness to demand					
b) Poor raw material flows / supplies					
c) Poor distribution channels					
d) Competitive threats from multinationals					
e) Competitive threats from other local industries					
f) Slowness of local administration					
g) Scarcity of qualified workers					
h) Managing change					
i) Local infrastructures					
j) Cultural barriers					
k) Bureaucracy burdens					

17. What is the company competitive advantage?
1. Not important at all 2. Less important 3. Moderately important 4. Important 5. Very important

	1	2	3	4	5
a) Company's image					
b) Product quality					
c) Technological efficiency					
d) Quality of customer services					
e) Product costs					
f) Management system					
g) Financial system					
h) Marketing system					
i) Financial resources and capital assets					
j) Bank credibility					
k) Marketing research and customer intelligence					
l) Research and development					
m) Communication system					
o) Others, specify please					

18. What are the other variables influencing your company success?

1. Strongly disagree 2. Slightly disagree 3. Neither (undecided) 4. Slightly agree 5. Strongly agree

		1	2	3	4	5
a)	Geographic situation of the host country					
b)	Cultural aspects					
c)	Local infrastructures					
d)	Abundance of manpower					
e)	Qualified workforce					
f)	Clear corporate mission and objectives					
g)	Effective strategic planning					
h)	Quality management					
i)	Product diversification					
j)	Effective pricing policy					
k)	Availability of raw materials					
l)	Supply reliability					
m)	Customer satisfaction					
n)	Research and development policy					
o)	Market shares					
p)	Strong recruitment policy					
q)	Co-operation with other industries					
r)	Excellent public relation					
s)	Service to the community and the country					
t)	Other(s), please specify					

19. What is important to your company's planning, strategy setting and decision-making process?

1. Not important at all 2. Less important 3. Moderately important 4. Important 5. Very important

		1	2	3	4	5
a)	Local commercial regulation					
b)	Global trade regulation					
c)	Local social values and customs					
d)	Investment codes					

20. What is approximately the size of the market?

In currency ($ or Cedi)…….	
In sales volumes……	

21. What is your company's annual turnover? In Cedi?

Currently less 10m ☐ 10 - 20m ☐ 20 - 30m ☐ 30 - 50m ☐ 50 - over ☐

22. What are the sources of initial investment capital?

a) Domestic ☐ %
b) Foreign ☐ %

23. Which operations are computerised?

a) Production only ☐
b) Administration only ☐
c) All operations ☐
d) Year of computerisation: 19☐

Section 4: Risk management

24. What is the exchange rate arrangement preferred by your company?
Tick one box

a) Currency pegged to major international currencies ☐
b) Completely flexible exchange rate ☐
c) International trade and finance in term of industrial countries monies ☐
d) Other(s), please specify ☐

☐

25. In your opinion, is a fixed exchange rate regime beneficial for the following reasons?
Tick one box or more

a) Increases capital mobility ☐
b) Reduces exposure to exchange rate risks ☐
c) Increases benefit from portfolios diversification ☐
d) Increasing openness to international trade ☐
e) Shifting export towards manufactures ☐
f) Diversifying trade ☐
g) Greater interregional trade ☐
h) Reducing inflation ☐

26. What are company benefits in operating in a fixed exchange rate states?
1. Strongly disagree 2. Slightly disagree 3. Neither (undecided) 4. Slightly agree 5. Strongly agree

	1	2	3	4	5
a) Exchange rate is less volatile					
b) Price stability					
c) Enforcing trade and investment					
d) Inflation rate is under control					
e) Monitoring monetary policy by controlling exchange rate					
f) Growth of international trade					
g) Reducing risks of foreign exchange rate fluctuations					
h) Small fluctuation by maintaining pre-set narrow bands					

27. Could you evaluate your company's costs for operating in a fixed exchange rate regime?
1. No impact 2. Little impact 3. Some impact 4. Important impact 5. Serious impact

	1	2	3	4	5
a) Large foreign exchange reserves costs for international trade					
b) Cheaper imports					
c) Competition from foreign products					
d) Trading mostly with partners in developed countries					

28. Have you had any problems to operate in a flexible exchange rate regime?
Tick one box or more

a) Exchange rate is highly volatile	
b) Price instability	
c) Harming trade and investment	
d) High inflation rate	

29. What are company's advantages in operating in a flexible exchange rate system?
1. No benefit 2. Some benefit 3. Moderate benefit 4. Important benefit 5. Very important benefit

	1	2	3	4	5
a) Adjusting monetary policy without worrying about the exchange rate					
b) Cheaper exports and high import price protection					

30. How do exchange rate appreciations affect company investment policy?
Tick one box or more

a) Higher export price seriously reduces competitiveness	
b) It is cheaper to replace imported equipment	
c) It is cheaper to purchase new technologies	

31. How do exchange rate adjustments affect company imports and exports?
Tick one box or more

a) Exchange rate depreciation stimulates exports and curtails imports
b) Exchange rate appreciation damages exports and encourages imports
c) Exchange rate depreciation improves exports price competitiveness
d) Exchange rate depreciation encourage regional trade
e) Exchange rate depreciation affects dollar-denominated debts by requiring more francs to pay off dollar debts

32. What are the advantages to a company which is operating within a monetary union?
1. Not important at all 2. Less important 3. Moderately important 4. Important 5. Very important

	1	2	3	4	5
a) Encourages trade and financial flows					
b) Sources of funding for public and private borrowers					
c) Provides better channel for investment and savings					
d) Elimination of exchange rates risks					
e) Promotion of greater overall currency stability					
f) Encourages intra-zone trade and investment					
g) Reduces costs of hedging against currency fluctuations					
h) Elimination of transactions costs linked with conversion					
i) Better transparency in pricing					
j) Improving business competitiveness					
k) Simplification of procedures and operational issues					
l) A sizeable and unified market favourable to trade and investment					
m) Lower inflation and interest rates					

33. What are the costs for a company operating within a monetary union?
1. Not important at all 2. Less important 3. Moderately important 4. Important 5. Very important

	1	2	3	4	5
a) Less liberalised markets					
b) Policies inappropriate to domestic needs					
c) Concentration on monetary union export market					

Section 5: Foreign exchange

34. What is the role of your bank in the foreign exchange transactions?
Tick one box or more

a) Efficient payment facilities
b) Long term credit for investment
c) Short term trade credit

35. How does your company deal with exchange rate risks?
Tick one box

a) Uncovered
b) Forward market hedging
c) Forward market option

36. What are the company's foreign exchange risks?
1. Not important at all 2. less important 3. Moderately important 4. Important 5. Very important

a) Price level risk
b) Interest rate risk

1	2	3	4	5

37. For you, which are the variables influencing exchange rates?
1. No impact 2. Little impact 3. Some impact 4. Important impact 5. Serious impact

a) Fluctuations in world prices
b) Inflation differentials with major trading partner
c) Capital inflows
d) Pace of market reforms
e) Socio-political stability

1	2	3	4	5

QUESTIONNAIRE DE RECHERCHE

REPONSE DES ENTREPRISES AU PHENOMENE D'UNION MONETAIRE ET DU REGIME DU TAUX DE CHANGE. EVIDENCE DE LA COTE D'IVOIRE ET DU GHANA

Cette étude fait partie d'une recherche académique conduisant au diplôme de PhD en Economie à l'Université de Westminster à Londres, Grande Bretagne. L'objectif de cette thèse est d'analyser l'impact du régime du taux de change sur le succès en productivité de l'Entreprise sans oublier les entreprises opérant dans une union monétaire.

Prière cocher la case et entourer la réponse appropriée. Prière ne laisser aucune question sans réponse. Si vous avez une suggestion, vous voudriez bien utiliser les espaces prévus en dessous de chaque réponse.

Pour l'échelle : 1- désapprouve catégoriquement, 2- désapprouve légèrement, 3- neutre, 4- approuve légèrement, 5- approuve vigoureusement.

Section 1 : Information de base

1. Nom de l'Entreprise :……

2. Quelle est le domaine d' activité?:…….

3. Où est enregistrée l'Entreprise ?

4. A-t-elle des succursales ?

5. Faire la liste des succursales et lieu d'implantation SVP:

6. Nombre d'employée : .locaux…… | | En 2004
.expatriés…… | |

7. Effectif : 0 à 20 ☐ 20 à 50 ☐ 50 et plus (préciser) ☐……

8. Type d'emploi

%	Permanent	Temporaire	Contrat

9. Quelle est la taille de votre entreprise

Petite ☐ Moyenne ☐ Grande ☐

10. Quand a-t-elle été implantée ?

1 à 5 ans ☐ 5 à10 ans ☐ 10 à 20 ans ☐ 20 et plus ☐
Précisez l'année :……..

Section 2 : Marches/ Forces du marche

11. Quels sont les principaux produits de votre entreprise

a) …….
b) …….
c) …….
d) …….
e) …….
f) ……..
g) …….
h) autre(s)……..

12. Quelle est la part approximative du marche de l'entreprise dans son secteur d'industrie?

☐ En pourcentage

13. Quel type de produits l'Entreprise fabrique-t-elle ?

a) Biens intermédiaires ☐
b) Biens de consommation ☐
c) Capitaux ☐

14. Quel est le circuit de production de l'Entreprise ?
1. Tous 2. Quelques uns 3. Rien

a) Biens produits par l'entreprise elle- même ☐☐☐
b) Biens produits par une autre filiale sur le plan local ou international ☐☐☐
c) L'entreprise distribue des biens importes ☐☐☐

15. Quelle est la clientèle ciblée par l'Entreprise ?

0 à 20 ans ☐ 20 à 40 ans ☐ 40 ans et au-delà ☐ Tous ☐ Personne ☐

Section 3 : Informations financières

16. Quelles sont les causes des échecs de votre entreprise ?

1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

	1	2	3	4	5
a) Réponse à la demande					
b) Matière première et mouvement de l'offre					
c) Chaîne de distribution					
d) Compétition de la part des multinationales					
e) Compétition de la part des autres industries locales					
f) Lourdeur de l'Administration locale					
g) Manque de main d'oeuvre qualifiée					
h) Gestion des changements et résistance					
i) Infrastructures locales					
j) Barrières culturelles					
k) Forte bureaucratie					

17. Quel est l'avantage concurrentiel de votre entreprise ?

1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

	1	2	3	4	5
a) Image de l'entreprise					
b) Qualité des produits					
c) Technologie efficiente					
d) Qualité du service clients					
e) Circuit de production					
f) Système de gestion					
g) Système financier					
h) Système marketing					
i) Ressources financières et actifs immobilisés					
j) Crédibilité bancaire					
k) Recherche marketing et client					
l) Recherche et développement					
m) Système de communication					

18. Quelles sont les autres variables qui contribuent au succès de votre entreprise ?

1. Intense désaccord 2. Peu de désaccord 3. Indécis 4. Un peu d' accord 5. Intense accord

	1	2	3	4	5
a) Situation géographique du pays hote					
b) Aspect culturel					
c) Infrastructures locales					

d) Abondance de main d'oeuvre					
e) Main d'oeuvre qualifiée					
f) Mission et objectifs de l'entreprise					
g) Planification stratégique effective					
h) Qualité du management					
i) Diversification des biens et services					
j) Politique de prix effective					
k) Abondance de matière première					
l) Offre disponible					
m) Satisfaction de la clientèle					
n) Politique de recherche et développement					
o) Part importante du marché					
p) Forte politique de recrutement					
q) Coopération avec les autres industries					
r) Excellente relation publique					
s) Service à la communauté et au pays					
t) Autres, spécifiez SVP					

19. Quelles sont les données prises en compte dans la planification et les prises de décision de votre entreprise ?

1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

	1	2	3	4	5
a) Régularisation du commerce locale					
b) Régularisation du commerce global					
c) Valeurs sociales locales et coutumes					
d) Code d'investissement					

20. Quelle est la taille approximative du marché ?

a) En monnaie FCFA……	
b) Volume de vente……..	

21. Quel est le chiffre d'affaire de l'Entreprise ?

Actuellement : 1 m ☐ 1 à 10 m ☐ 10 à 20 m ☐ 20 à 30 m ☐ 30 à 50 m ☐

50m et au-delà ☐

22. Quelle est votre source d'investissement initial ?

a) Local	
b) Etranger	

23. Les opérations de votre entreprise sont-elles informatisées ?

a) Seulement la production	
b) Seulement l'administration	

c) Toutes les opérations	
d) Années d'informatisation 19……	

Section 4 : Gestion du risque

24. Qu'entendez vous par **réajustement** de taux de charge ?
Cocher une case

a) Monnaie liée à des devises internationales	
b) Taux de change flexible	
c) Financement et commerce international en terme des monnaies des pays industrialisés	
d) Autres, spécifier SVP…….	

25. Selon vous, le taux de change fixe est-il bénéfique pour les raisons suivantes ? :
Cocher une case ou plus

a) Augmenter le transfert des capitaux	
b) Confronter aux risques du taux de change	
c) Diversifier les portefeuilles	
d) Large ouverture sur le commerce international	
e) Passer de l'exportation à la transformation	
f) Diversifier le commerce	
g) Intensifier le commerce interrégional	
h) Réduire l'inflation	

26. Est-il bénéfique pour votre entreprise d'être dans un régime de taux de change fixe?
1. Intense désaccord 2. Peu de désaccord 3. Indécis 4. Un peu d' accord 5. Intense accord

a) Taux de change moins volatile					
b) Stabilité de prix					
c) Renforcement du commerce et l'investissement					
d) Contrôle du taux d'inflation					
e) Contrôle du taux de change					
f) Croissance du commerce international					
g) Réduction des risques de fluctuation du taux de change					
h) Maintenir les taux de fluctuations dans des proportions pré-					

établies

27. Quels sont les coûts pour votre entreprise d'opérer en régime de taux de change fixe ?
1. Pas d'impact 2. Peu d'impact 3. Quelque impact 4. Impact important 5. Impact sérieux

a) Grande réserve en devises par le commerce international
b) Importation moins chères et exportations chères
c) Confrontation à une concurrence des produits étrangers
d) Traiter plus avec les partenaires des pays développés

28. Quels sont les problèmes rencontrés par votre entreprise en régime de taux de charge flexible ?
Cocher une case ou plus

a) Taux de change très volatile
b) Instabilité des prix
c) Affecter le commerce et l'investissement
d) Taux d'inflation élevé

29. Quels sont les avantages pour votre entreprise opérant dans un système de taux de change flexible ?
1. Pas de bénéfice 2. Quelque bénéfice 3. Bénéfice modère 4. Important bénéfice 5. Sérieux bénéfice

a) Ajustement de la politique monétaire sans se préoccuper du taux de change
b) Exportations moins chères et prix d'importation élevé

30. Comment le taux de change affecte-t-il la politique d'investissement de votre entreprise ?
Cocher une case ou plus

a) Plus le taux de change est élevé, plus le prix des exportations est élevé
b) Coût élevé des équipements importés
c) Coût élevé d'acquisition de nouvelles technologies

31. Comment le taux de change affecte les exportations et importations de votre entreprise?
Cocher une case ou plus

a) Stimulation des exportations et restriction des importations par la dépréciation du taux de change
b) Stimulation des importations et restriction des exportations par l'appréciation du taux de change
c) Fluctuations du taux de change affectent la compétitivité du prix des exportations
d) Fluctuations du taux de change stimulent le commerce régional
e) Coût élevé de la valeur de la dette en dollar

32. Quels sont les avantages pour votre entreprise opérant à l'intérieur d'une union monétaire ?
1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

a)	Performance du commerce et finance international					
b)	Source de fonds pour les emprunts (publique et privé)					
c)	Canal d'investissement et d'épargne					
d)	Elimination des multiples risques du taux de change					
e)	Promotion d'une grande stabilité de la monnaie					
f)	Encouragement du commerce et de l'investissement interrégional					
g)	Réduction des coûts de transactions contre toute fluctuation du taux de change					
h)	Elimination des coûts de conversion					
i)	Meilleure transparence dans les prix					
j)	Amélioration de la compétitivité de l'Entreprise					
k)	Simplification des problèmes de procédures et opérationnels					
l)	Marché unique favorable au commerce et a l'investissement					
m)	Bas taux d'inflation et d'intérêt					

33. Quels sont les coûts pour l'entreprise opérant à l'intérieur d'une union monétaire ?
1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

a)	Libéralisation des prix étant moindre					
b)	Besoins domestiques étant inapproprié					
c)	Marché des exportations étant restreint					

Section 5 : Taux de change

34. Quel rôle joue votre banque dans vos transactions financières ?
Cocher une case ou plus

a)	Rendre accessibles les moyens de paiement					
b)	Faciliter les transferts					
c)	Rendre accessibles les marchés des capitaux					

35. Comment votre entreprise fait elle face aux risques du taux de change ?
Cocher une case

a)	ouvert	
b)	vente anticipée	
c)	marche option	

36. Quels sont les risques de change pour votre entreprise ?

1. Pas important du tout 2. Peu important 3. Modérément important 4. Important 5. Très important

a)	Risque du niveau des prix					
b)	Risque du taux d'intérêt					

37. Quels sont, selon vous, les variables influençant le taux de change dans les pays en voie de développement ?

1. Pas d'impact 2. Peu d'impact 3. Quelque impact 4. Impact important 5. Impact sérieux

	1	2	3	4	5
a) Fluctuations du terme de l'échange (relation entre les exportations et importations affectant la balance commerciale)					
b) Inflation différentielle					
c) Mouvement de capitaux					
d) Etapes de reforme du marché					
e) Stabilité sociopolitique					

APPENDIX 3

Table 1a: Cote d'Ivoire
Exports and Imports of Goods and Services as percent of GDP

YEAR	EXPORTS	IMPORTS
1970	-	-
1971	-	-
1972	-	-
1973	38.5	40.4
1974	46.3	42.1
1975	37.6	40.1
1976	42.3	38.7
1977	43.7	38.6
1978	38.3	39.7
1979	35.4	39.3
1980	35.2	40.7
1981	34.0	39.1
1982	37.0	39.0
1983	36.4	38.4
1984	43.8	33.8
1985	45.3	31.1
1986	39.9	32.2
1987	34.5	31.9
1988	31.7	30.9
1989	32.7	31.9
1990	32.4	30.3
1991	31.6	30.7
1992	32.2	29.8
1993	30.7	34.2
1994	44.4	34.2
1995	43.4	38.1
1996	46.2	37.5
1997	43.0	35.3
1998	40.8	34.5
1999	41.8	33.6
2000	41.2	34.2
2001	42.1	34.4
2002	50.1	34.2
2003	45.9	35.7
2004	47.7	38.6
2005	50.4	40.3

Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006 World Bank, World Development Indicators 2000, 2002, 2004 and 2005

APPENDIX 4

Table 1b: Ghana
Exports and Imports of Goods and Services as percent of GDP

YEAR	EXPORTS	IMPORTS
1970	-	-
1971	-	-
1972	-	-
1973	21.5	17.2
1974	18.3	22.6
1975	19.4	19.2
1976	15.7	16.8
1977	10.5	11.6
1978	8.4	9.0
1979	11.3	10.4
1980	7.8	7.6
1981	3.1	4.7
1982	2.3	2.6
1983	2.3	3.0
1984	8.1	9.3
1985	10.6	13.3
1986	14.0	17.0
1987	18.7	24.7
1988	18.4	24.3
1989	16.9	24.5
1990	15.8	24.2
1991	16.7	25.1
1992	17.2	28.8
1993	20.3	36.4
1994	25.5	36.8
1995	24.5	32.8
1996	24.9	34.3
1997	24.0	37.9
1998	27.0	36.0
1999	17.0	26.0
2000	49.0	67.5
2001	45.0	65.0
2002	42.0	54.0
2003	40.0	52.0
2004	34.5	54.4
2005	30.4	49.5

Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006
World Bank, World Development Indicators 2000, 2002, 2004 and 2005

APPENDIX 5

Table 2a: COTE D'IVOIRE
Exports and Imports of goods and services (Billions of US Dollars) and Growth

YEAR	EXPORTS ($bn)	Export Growth (%)	IMPORTS ($bn)	Import Growth (%)
1970	0.471		0.39	
1971	0.459	-2.61	0.402	2.99
1972	0.553	17.00	0.454	11.45
1973	0.857	35.47	0.71	36.06
1974	1.213	29.35	0.969	26.73
1975	1.181	-2.71	1.127	14.02
1976	1.632	27.63	1.296	13.04
1977	2.157	24.34	1.756	26.20
1978	2.322	7.11	2.326	24.51
1979	2.514	7.64	2.491	6.62
1980	3.135	19.81	2.991	16.72
1981	2.533	-23.77	2.383	-25.51
1982	2.298	-10.23	2.18	-9.31
1983	2.091	-9.90	1.839	-18.54
1984	2.707	22.76	1.497	-22.85
1985	2.969	8.82	1.749	14.41
1986	3.354	11.48	2.055	14.89
1987	3.11	-7.85	2.241	8.30
1988	2.77	-12.27	2.08	-7.74
1989	2.807	1.32	2.111	1.47
1990	3.072	8.63	2.098	-0.62
1991	2.686	-14.37	2.103	0.24
1992	2.875	6.57	2.352	10.59
1993	2.519	-14.13	2.115	-11.21
1994	2.742	8.13	1.917	-10.33
1995	3.806	27.96	2.931	34.60
1996	4.446	14.39	2.902	-1.00
1997	4.451	0.11	2.781	-4.35
1998	4.606	3.37	2.991	7.02
1999	4.7	2.00	3.252	8.03
2000	3.888	-20.88	2.535	-28.28
2001	3.9	0.31	2.545	0.39
2002	5.3	26.42	2.5	-1.80
2003	5.8	8.62	3.2	21.88
2004	6.9	15.94	4.2	23.81
2005	7.2	4.17	4.7	10.64

Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006

APPENDIX 6

Table 2b: GHANA
Exports and Imports of goods and services (Billions of US Dollars) and Trade Growth

YEAR	EXPORTS	Export Growth (%)	IMPORTS	Import Growth (%)
1970	0.5		0.4	
1971	0.3	-35.9	0.4	1.9
1972	0.4	21.4	0.3	-39.8
1973	0.6	25.1	0.4	29.8
1974	0.7	21.4	0.8	47.9
1975	0.8	9.7	0.8	-3.5
1976	0.8	2.5	0.8	5.7
1977	0.9	11.4	1.3	33.6
1978	1.2	24.2	1.4	8.3
1979	1.2	-2.7	1.3	-5.9
1980	1.2	0.4	1.1	-15.1
1981	1.0	-23.9	1.2	3.8
1982	1.1	7.9	0.8	-51.5
1983	0.7	-48.5	0.8	1.5
1984	0.6	-19.7	0.7	-15.7
1985	0.5	-30.8	0.8	14.2
1986	0.9	47.2	0.8	-1.4
1987	1.0	11.7	1.0	20.9
1988	1.0	6.7	1.2	17.2
1989	1.1	2.3	1.3	8.8
1990	1.3	14.9	1.0	-35.4
1991	0.6	-103.9	1.3	24.1
1992	1.2	50.1	1.6	21.1
1993	1.2	0.2	0.5	-215.9
1994	1.6	22.3	2.1	76.1
1995	1.6	2.1	2.1	-4.2
1996	1.7	5.5	2.1	1.0
1997	1.8	3.1	2.5	18.2
1998	1.8	-1.3	3.4	26.0
1999	1.8	-0.1	3.3	-5.2
2000	1.5	-18.1	2.9	-13.4
2001	1.5	-0.4	2.7	-6.9
2002	1.7	10.4	3.0	10.8
2003	2.0	16.8	3.9	22.3
2004	2.3	12.2	5.3	26.4
2005	2.3	3.8	5.8	9.6

Source: IMF, International Financial Statistics Yearbooks 1981, 1985, 1990, 1995, 2002 and 2006

APPENDIX 7

Table 7.1 Survey Results

Comparative Descriptive Statistics

Q'aire Code		Question	COTE D'IVOIRE m	Mean	Std Dev	GHANA n	Mean	Std Dev
16	a	**In your opinion, what are the causes of company failures in your industry?** Lack of responsiveness to demand (1=Not important at all to 5=Very important)	57	4.2632	1.50625	43	4.163	1.60253
16	b	**In your opinion, what are the causes of company failures in your industry?** Poor raw materials flows / supplies (1=Not important at all to 5=Very important)	57	4.0526	1.65207	43	4.395	1.39965
16	c	**In your opinion, what are the causes of company failures in your industry?** Poor distribution channels (1=Not important at all to 5=Very important)	57	4.2281	1.59259	43	4.535	1.20216
16	d	**In your opinion, what are the causes of company failures in your industry?** Competitive threats from multinationals (1=Not important at all to 5=Very important)	57	4.6667	0.96978	43	4.93	0.33773
16	e	**In your opinion, what are the causes of company failures in your industry?** Competitive threats from other local industries (1=Not important at all to 5=Very important)	57	4.1754	1.35123	43	4.581	0.95699
16	f	**In your opinion, what are the causes of company failures in your industry?** Slowness of local administration (1=Not important at all to 5=Very important)	57	2.0526	1.28759	43	2.093	1.55554
16	g	**In your opinion, what are the causes of company failures in your industry?** Scarcity of qualified workers (1=Not important at all to 5=Very important)	57	2.5088	1.3774	43	1.744	1.77406
16	h	**In your opinion, what are the causes of company failures in your industry?** Managing change (1=Not important at all to 5=Very important)	57	1.5263	1.1968	43	2.093	1.55554
16	i	**In your opinion, what are the causes of company failures in your industry?** Local infrastructures (1=Not important at all to 5=Very important)	57	3.9649	1.67934	43	3.628	1.73237
16	j	**In your opinion, what are the causes of company failures in your industry?** Cultural barriers (1=Not important at all to 5=Very important)	57	1.2281	0.7796	43	1.488	1.09918
16	k	**In your opinion, what are the causes of company failures in your industry?** Bureaucracy burdens (1=Not important at all to 5=Very important)	57	2.4035	1.46214	43	1.861	1.44059
17	a	**What is your company competitive advantage?** Company's image (1=Not important at all to 5=Very important)	57	5	0	43	5	0
17	b	**What is your company competitive advantage?** Product quality (1=Not important at all to 5=Very important)	57	5	0	43	5	0
17	c	**What is your company competitive advantage?** Technological efficiency (1=Not important at all to 5=Very important)	57	4.3684	1.24831	43	4.767	0.81174
17	d	**What is your company competitive advantage?** Quality of customer services (1=Not important at all to 5=Very important)	57	4.8246	0.50437	43	4.954	0.21308
17	e	**What is your company competitive advantage?** Product costs (1=Not important at all to 5=Very important)	57	4.5088	1.11999	43	4.814	0.5458
17	f	**What is your company competitive advantage?** Management system (1=Not important at all to 5=Very important)	57	4.9649	0.18564	43	4.837	0.53141
17	g	**What is your company competitive advantage?** Financial system (1=Not important at all to 5=Very important)	57	4.8246	0.50437	43	4.674	0.71451
17	h	**What is your company competitive advantage?** Marketing system	57	4.7895	0.5586	43	4.814	0.50028

		(1=Not important at all to 5=Very important)						
17	i	**What is your company competitive advantage?** Financial resources and capital assets (1=Not important at all to 5=Very important)	57	4.7018	0.8653	43	4.698	0.80282
17	j	**What is your company competitive advantage?** Bank credibility (1=Not important at all to 5=Very important)	57	4.9474	0.22528	43	4.837	0.68765
17	k	**What is your company competitive advantage?** Marketing research and customer intelligence (1=Not important at all to 5=Very important)	57	3.807	1.30163	43	4.116	1.19939
17	l	**What is your company competitive advantage?** Research and development (1=Not important at all to 5=Very important)	57	3.7719	1.59259	43	4.372	1.23488
17	m	**What is your company competitive advantage?** Communication system (1=Not important at all to 5=Very important)	57	4.807	0.66651	43	5	0
18	a	**What are the other variables influencing your company success?** Geographic situation of the host country (1=Strongly disagree to 5=Strongly agree)	57	5	0	43	4.767	0.64871
18	b	**What are the other variables influencing your company success?** Cultural aspects (1=Strongly disagree to 5=Strongly agree)	57	1.9649	1.48763	43	2.512	1.79114
18	c	**What are the other variables influencing your company success?** Local infrastructures (1=Strongly disagree to 5=Strongly agree)	57	4.9474	0.22528	43	4.698	0.88734
18	d	**What are the other variables influencing your company success?** Abundance of manpower (1=Strongly disagree to 5=Strongly agree)	57	4.7368	0.81342	43	4.814	0.69884
18	e	**What are the other variables influencing your company success?** Qualified workforce (1=Strongly disagree to 5=Strongly agree)	57	3.386	1.37262	43	2.791	1.68407
18	f	**What are the other variables influencing your company success?** Clear corporate mission and objectives (1=Strongly disagree to 5=Strongly agree)	57	4.9825	0.13245	43	5	0
18	g	**What are the other variables influencing your company success?** Effective strategic planning (1=Strongly disagree to 5=Strongly agree)	57	5	0	43	5	0
18	h	**What are the other variables influencing your company success?** Quality management (1=Strongly disagree to 5=Strongly agree)	57	5	0	43	5	0
18	i	**What are the other variables influencing your company success?** Product diversification (1=Strongly disagree to 5=Strongly agree)	57	4.386	1.1141	43	4.767	0.78185
18	j	**What are the other variables influencing your company success?** Effective pricing policy (1=Strongly disagree to 5=Strongly agree)	57	4.7193	0.70088	43	4.861	0.55982
18	k	**What are the other variables influencing your company success?** Availability of raw materials (1=Strongly disagree to 5=Strongly agree)	57	4.614	1.08157	43	4.581	1.09615
18	l	**What are the other variables influencing your company success?** Supply reliability (1=Strongly disagree to 5=Strongly agree)	57	4.9649	0.18564	43	4.93	0.33773
18	m	**What are the other variables influencing your company success?** Customer satisfaction (1=Strongly disagree to 5=Strongly agree)	57	4.9298	0.31958	43	4.861	0.67547
18	n	**What are the other variables influencing your company success?** Research and development policy (1=Strongly disagree to 5=Strongly agree)	57	3.7895	1.66623	43	4.465	1.31564
18	o	**What are the other variables influencing your company success?** Market shares (1=Strongly disagree to 5=Strongly agree)	57	4.8772	0.56915	43	4.721	0.66639

18	**p**	**What are the other variables influencing your company success?** Strong recruitment policy (1=Strongly disagree to 5=Strongly agree)	57	3.2281	1.46406	43	3.698	1.61149
18	**q**	**What are the other variables influencing your company success?** Cooperation with other industries (1=Strongly disagree to 5=Strongly agree)	57	4.6491	0.61212	43	4.767	0.6109
18	**r**	**What are the other variables influencing your company success?** Excellent public relation (1=Strongly disagree to 5=Strongly agree)	57	4.7895	0.45264	43	4.744	0.75885
18	**s**	**What are the other variables influencing your company success?** Service to the community and the country (1=Strongly disagree to 5=Strongly agree)	57	4.3509	1.2173	43	4.814	0.69884
19	**a**	**What is important to your company' planning, strategy setting & decision-making process?** Local commercial regulation (1=Not important at all to 5=Very important)	57	4.5263	0.98389	43	4.674	0.94418
19	**b**	**What is important to your company' planning, strategy setting & decision-making process?** Global trade regulation (1=Not important at all to 5=Very important)	57	5	0	43	4.954	0.305
19	**c**	**What is important to your company' planning, strategy setting & decision-making process?** Local social values and customs (1=Not important at all to 5=Very important)	57	2.2632	1.45806	43	3.279	1.56335
19	**d**	**What is important to your company' planning, strategy setting & decision-making process?** Investment codes (1=Not important at all to 5=Very important)	57	4.807	0.66651	43	4.93	0.33773
22	**a**	**What are your sources of initial investment capital?** Domestic (%)	56	43.518	30.92277	43	50.72	35.563
22	**b**	**What are your sources of initial investment capital?** Foreign (%)	54	58.574	29.45262	42	50.45	35.1417
24	**a**	**What is the percentage of output exported?** Export CFA (or Ghana) - Euro zone (%)	48	40.223	34.70548	36	22.78	27.861
24	**b**	**What is the percentage of output exported?** Others (%)	43	53.158	34.38589	33	49.52	32.3652
25	**a**	**What is the exchange rate arrangement preferred by your company?** Currency pegged to major international currencies (Y=1, N=0)	56	0.7857	0.41404	42	0.262	0.445
25	**b**	**What is the exchange rate arrangement preferred by your company?** Completely flexible exchange rate (Y=1, N=0)	56	0	0	42	0.524	0.50549
25	**c**	**What is the exchange rate arrangement preferred by your company?** International trade and finance in term of industrial countries monies (Y=1, N=0)	56	0.2679	0.44685	42	0.286	0.45723
26	**a**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increases capital mobility (Y=1, N=0)	57	0.4737	0.50375	38	0.579	0.50036
26	**b**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Reduces exposures to exchange rate risks (Y=1, N=0)	57	0.9474	0.22528	38	1	0
26	**c**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increases benefit from portfolios diversification (Y=1, N=0)	57	0.2632	0.44426	38	0.105	0.31101
26	**d**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increasing openness to international trade (Y=1, N=0)	57	0.5263	0.50375	38	0.395	0.49536
26	**e**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Shifting export towards manufactures (Y=1, N=0)	57	0.5088	0.50437	38	0.158	0.36954
26	**f**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Diversifying trade (Y=1, N=0)	57	0.386	0.49115	38	0.079	0.27328

26	**g**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Greater interregional trade (Y=1, N=0)	57	0.8596	0.35044	38	0.421	0.50036
26	**h**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Reducing inflation (Y=1, N=0)	57	0.9649	0.18564	38	0.947	0.22629
27	**a**	**Has the introduction of the Euro led to any of the following?** Adjusting foreign exchange transactions and habits (Y=1,N=0)	57	1	0	43	0.977	0.1525
27	**b**	**Has the introduction of the Euro led to any of the following?** Keeping informed of the Euro latest events (Y=1, N=0)	57	0.9825	0.13245	43	1	0
27	**c**	**Has the introduction of the Euro led to any of the following?** Retraining staff and the management (Y=1, N=0)	57	0	0	43	0	0
27	**d**	**Has the introduction of the Euro led to any of the following?** Investing in new technologies (Y=1, N=0)	57	0.386	0.49115	43	0.302	0.4647
27	**e**	**Has the introduction of the Euro led to any of the following?** Decentralizing the administration (Y=1, N=0)	56	0.0179	0.13363	43	0	0
27	**f**	**Has the introduction of the Euro led to any of the following?** Assets conversion (Y=1, N=0)	57	0.0702	0.25771	43	0.07	0.25777
27	**g**	**Has the introduction of the Euro led to any of the following?** Redenominating debts and effects (Y=1, N=0)	57	0	0	43	0.047	0.21308
27	**h**	**Has the introduction of the Euro led to any of the following?** Developing new markets, products and skills (Y=1, N=0)	57	0.4386	0.50063	43	0.465	0.50468
27	**i**	**Has the introduction of the Euro led to any of the following?** Better exploitation of innovations, research and technological development (Y=1, N=0)	57	0.3333	0.47559	43	0.372	0.48908
28	**a**	**What are the benefits of the single currency, the Euro?** Price transparency (Y=1, N=0)	57	0.9825	0.13245	43	1	0
28	**b**	**What are the benefits of the single currency, the Euro?** Less currency convertibility issues (Y=1, N=0)	57	1	0	43	1	0
28	**c**	**What are the benefits of the single currency, the Euro?** Cheaper imports (Y=1, N=0)	57	0.5088	0.50437	43	0.349	0.48224
28	**d**	**What are the benefits of the single currency, the Euro?** Export promotion (Y=1, N=0)	57	0.8246	0.38372	43	0.488	0.50578
29	**a**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Dealing with one currency instead of twelve different ones (1=Not important at all to 5=Very important)	57	5	0	43	5	0
29	**b**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** High integration between countries (1=Not important at all to 5=Very important)	57	5	0	43	4.884	0.54377
29	**c**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Reducing transaction costs (1=Not important at all to 5=Very important)	57	5	0	43	5	0
29	**d**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Principal sources of trading partners (1=Not important at all to 5=Very important)	57	4.7018	0.96297	43	4.349	0.99723

29	**e**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Low cost imports are guaranteed (1=Not important at all to 5=Very important)	57	3.9298	1.56821	42	3.714	1.43622
29	**f**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Increasing market for company exports (1=Not important at all to 5=Very important)	57	4.7544	0.7856	43	4.884	0.44771
29	**g**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Price stability (1=Not important at all to 5=Very important)	57	4.9298	0.52981	43	4.93	0.33773
29	**h**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Efficient use of cash (1=Not important at all to 5=Very important)	57	2.9649	1.63625	43	2.186	1.56229
29	**i**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Controlling interest rate exposure (1=Not important at all to 5=Very important)	57	4.5965	0.70355	43	4.581	1.00552
29	**j**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** High foreign investment due to increase trade links (1=Not important at all to 5=Very important)	57	4.8772	0.46561	43	4.605	0.76031
29	**k**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Better and easier access to EU capital market (1=Not important at all to 5=Very important)	57	5	0	43	5	0
29	**l**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Reducing the burden of dollar denominated debts (1=Not important at all to 5=Very important)	57	3.4211	1.52301	43	2.07	1.51807
32	**a**	**What are company benefits in operating in a fixed exchange rate states?** Exchange rate is less volatile (1=Strongly disagree to 5=Strongly agree)	57	5	0	34	5	0
32	**b**	**What are company benefits in operating in a fixed exchange rate states?** Price stability (1=Strongly disagree to 5=Strongly agree)	57	5	0	34	4.912	0.37881
32	**c**	**What are company benefits in operating in a fixed exchange rate states?** Enforcing trade and investment (1=Strongly disagree to 5=Strongly agree)	57	3.7018	1.22423	34	3.294	1.31494
32	**d**	**What are company benefits in operating in a fixed exchange rate states?** Inflation rate is under control (1=Strongly disagree to 5=Strongly agree)	57	4.807	0.63916	34	4.971	0.1715
32	**e**	**What are company benefits in operating in a fixed exchange rate states?** Disciplining monetary policy by controlling exchange rate (1=Strongly disagree to 5=Strongly agree)	57	4.8421	0.45472	34	4.647	0.73371
32	**f**	**What are company benefits in operating in a fixed exchange rate states?** Growth of international trade (1=Strongly disagree to 5=Strongly agree)	57	4.0702	1.04982	34	3.5	1.35401
32	**g**	**What are company benefits in operating in a fixed exchange rate states?** Reducing risks of foreign exchange rate fluctuations (1=Strongly disagree to 5=Strongly agree)	57	4.807	0.63916	34	4.941	0.23883
32	**h**	**What are company benefits in operating in a fixed exchange rate states?** Small fluctuation by maintaining pre-set narrow bands (1=Strongly disagree to 5=Strongly agree)	57	3.7544	1.12251	33	3.849	1.0932
33	**a**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Large foreign exchange reserves costs for international trade (1=No impact to 5=Serious impact)	57	3.6316	1.42217	31	3.839	1.39276
33	**b**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Cheaper imports (1=No impact to 5=Serious impact)	57	4	1.55839	31	2.871	1.70767
33	**c**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Competition from foreign products (1=No impact to 5=Serious impact)	57	4.2632	1.39548	31	4.871	0.71842

33	**d**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Trading mostly with partners in developed countries (1=No impact to 5=Serious impact)	57	4.3509	0.95415	32	4.625	0.87067
34	**a**	**Have you had any problems to operate in a flexible exchange rate regime?** Exchange rate is highly volatile (Y=1, N=0)	48	0.9792	0.14434	43	0.977	0.1525
34	**b**	**Have you had any problems to operate in a flexible exchange rate regime?** Price instability (Y=1, N=0)	48	0.9792	0.14434	43	0.907	0.2939
34	**c**	**Have you had any problems to operate in a flexible exchange rate regime?** Harming trade and investment (Y=1, N=0)	47	0.5106	0.50529	43	0.116	0.32435
34	**d**	**Have you had any problems to operate in a flexible exchange rate regime?** High inflation rate (Y=1, N=0)	47	0.9574	0.20403	43	0.907	0.2939
35	**a**	**What are your company's advantages in operating in a flexible exchange rate regime?** Adjusting monetary policy without worrying about the exchange rate (1=No benefit to 5=Very important benefit)	49	4.8367	0.79966	43	4.977	0.1525
35	**b**	**What are your company's advantages in operating in a flexible exchange rate regime?** Cheaper exports and high import price protection (1=No benefit to 5=Very important benefit)	49	3.898	1.55784	43	3.14	1.67021
36	**a**	**How do exchange rate appreciations affect company investment policy?** Higher export price seriously reduces competitiveness (Y=1, N=0)	56	0.8393	0.37059	42	0.595	0.4968
36	**b**	**How do exchange rate appreciations affect company investment policy?** Cheaper to replace imported equipment (Y=1, N=0)	56	0.7679	0.42602	42	0.548	0.50376
36	**c**	**How do exchange rate appreciations affect company investment policy?** Cheaper to purchase new technologies (Y=1, N=0)	56	0.7857	0.41404	42	0.405	0.4968
37	**a**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation stimulates exports and curtails imports (Y=1, N=0)	57	0.6316	0.48666	43	0.488	0.50578
37	**b**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate appreciation damages exports and encourages imports (Y=1, N=0)	57	0.386	0.49115	43	0.419	0.49917
37	**c**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation improves exports price competitiveness (Y=1, N=0)	57	0.8772	0.33113	43	0.535	0.50468
37	**d**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation encourage regional trade (Y=1, N=0)	57	0.7193	0.45334	43	0.744	0.44148
37	**e**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation affects dollar-denominated debts by requiring more francs to pay off dollar debts (Y=1, N=0)	57	0.2982	0.46155	43	0.093	0.2939
38	**a**	**What are the advantages to a company which operates within a monetary union?** Encourages trade and financial flows (1=Not important at all to 5=Very important)	57	4.9474	0.39736	43	4.861	0.67547
38	**b**	**What are the advantages to a company which operates within a monetary union?** Sources of funding for public and private borrowers (1=Not important at all to 5=Very important)	57	4.8421	0.70177	43	4.581	0.93178
38	**c**	**What are the advantages to a company which operates within a monetary union?** Provides better channel for investment and savings (1=Not important at all to 5=Very important)	57	4.6667	0.93223	43	4.721	0.82594

38	**d**	**What are the advantages to a company which operates within a monetary union?** Elimination of exchange rates risks (1=Not important at all to 5=Very important)	57	5	0	43	5	0
38	**e**	**What are the advantages to a company which operates within a monetary union?** Promotion of greater overall currency stability (1=Not important at all to 5=Very important)	57	4.9825	0.13245	43	4.907	0.36606
38	**f**	**What are the advantages to a company which operates within a monetary union?** Encourages intra-zone trade and investment (1=Not important at all to 5=Very important)	57	4.9123	0.391	43	4.907	0.42617
38	**g**	**What are the advantages to a company which operates within a monetary union?** Reduces costs of hedging against currency fluctuations (1=Not important at all to 5=Very important)	57	4.9123	0.54382	43	5	0
38	**h**	**What are the advantages to a company which operates within a monetary union?** Elimination of transactions costs linked with conversion (1=Not important at all to 5=Very important)	57	5	0	43	4.977	0.1525
38	**i**	**What are the advantages to a company which operates within a monetary union?** Better transparency in pricing (1=Not important at all to 5=Very important)	57	5	0	43	4.93	0.33773
38	**j**	**What are the advantages to a company which operates within a monetary union?** Improving business competitiveness (1=Not important at all to 5=Very important)	57	4.8772	0.59971	43	4.93	0.25777
38	**k**	**What are the advantages to a company which operates within a monetary union?** Simplification of procedures and operational issues (1=Not important at all to 5=Very important)	57	4.2982	1.06846	43	4.512	0.79798
38	**l**	**What are the advantages to a company which operates within a monetary union?** A sizeable and unified market favorable to trade and investment (1=Not important at all to 5=Very important)	57	4.7719	0.70755	43	4.791	0.55883
38	**m**	**What are the advantages to a company operating within a monetary union?** Lower inflation and interest rates (1=Not important at all to 5=Very important)	57	5	0	43	5	0
39	**a**	**What are the costs for a company operating within a monetary union?** Less liberalized markets (1=Not important at all to 5=Very important)	57	4.0351	1.29511	43	4.861	0.51554
39	**b**	**What are the costs for a company operating within a monetary union?** Policies inappropriate to domestic needs (1=Not important at all to 5=Very important)	57	2.9123	1.59554	43	4.14	1.45703
39	**c**	**What are the costs for a company operating within a monetary union?** Concentration on monetary union export market (1=Not important at all to 5=Very important)	57	3.7544	1.32666	42	3.881	1.34713
40	**a**	**What is the role of your bank in the foreign exchange transactions?** Efficient payment facilities (Y=1, N=0)	57	1	0	42	0.976	0.1543
40	**b**	**What is the role of your bank in the foreign exchange transactions?** Long term credit for investment (Y=1, N=0)	57	0.8596	0.35044	43	0.512	0.50578
40	**c**	**What is the role of your bank in the foreign exchange transactions?** Short term trade credit (Y=1, N=0)	57	0.9649	0.18564	43	0.419	0.49917
41	**a**	**How does your company deal with exchange rate risks?** Uncovered (Y=1, N=0)	56	0.1607	0.37059	36	0	0
41	**b**	**How does your company deal with exchange rate risks?** Forward market hedging (Y=1, N=0)	56	0.7857	0.41404	36	0.944	0.23231
41	**c**	**How does your company deal with exchange rate risks?** Forward market option (Y=1, N=0)	56	0.2143	0.41404	36	0.194	0.40139

42	**a**	**What are the company's foreign exchange risks?** Price level risk (1=Not important at all to 5=Very important)	57	4.7368	0.93592	43	4.884	0.49806
42	**b**	**What are the company's foreign exchange risks?** Interest rate risk (1=Not important at all to 5=Very important)	57	4.4386	1.01801	43	4.442	1.07576
43	**a**	**For you, which are the variables influencing exchange rates?** Fluctuation in world prices (1=No impact to 5=Serious impact)	57	5	0	43	4.977	0.1525
43	**b**	**For you, which are the variables influencing exchange rates?** Inflation differentials with major trading partners (1=No impact to 5=Serious impact)	57	3.4211	1.25282	43	3.651	1.2127
43	**c**	**For you, which are the variables influencing exchange rates?** Capital inflows (1=No impact to 5=Serious impact)	57	4.7368	0.6416	43	4.023	1.22452
43	**d**	**For you, which are the variables influencing exchange rates?** Pace of market reforms (1=No impact to 5=Serious impact)	57	4.5439	1.08677	43	4.814	0.627
43	**e**	**For you, which are the variables influencing exchange rates?** Socio-political stability (1=No impact to 5=Serious impact)	57	4.9649	0.18564	43	4.954	0.305

Source: Sika ATSIN, Thesis survey, 2005

APPENDIX 8

Table 7.2 Survey Statistical Tests							
Difference of Means							
Q'aire		Question	COTE D'IVOIRE	GHANA	t	df	Test
Code			Mean	Mean	Value		Signifi-cance
16	a	**In your opinion, what are the causes of company failures in your industry?** Lack of responsiveness to demand (1=Not important at all to 5=Very important)	4.2632	4.1628	0.32	98	Ns
16	b	**In your opinion, what are the causes of company failures in your industry?** Poor raw materials flows / supplies (1=Not important at all to 5=Very important)	4.0526	4.3953	-1.09	98	Ns
16	c	**In your opinion, what are the causes of company failures in your industry?** Poor distribution channels (1=Not important at all to 5=Very important)	4.2281	4.5349	-1.06	98	Ns
16	d	**In your opinion, what are the causes of company failures in your industry?** Competitive threats from multinationals (1=Not important at all to 5=Very important)	4.6667	4.9302	-1.70	98	Ns
16	e	**In your opinion, what are the causes of company failures in your industry?** Competitive threats from other local industries (1=Not important at all to 5=Very important)	4.1754	4.5814	-1.68	98	Ns
16	f	**In your opinion, what are the causes of company failures in your industry?** Slowness of local administration (1=Not important at all to 5=Very important)	2.0526	2.093	-0.14	98	Ns
16	g	**In your opinion, what are the causes of company failures in your industry?** Scarcity of qualified workers (1=Not important at all to 5=Very important)	2.5088	1.7442	2.43	98	5%
16	h	**In your opinion, what are the causes of company failures in your industry?** Managing change (1=Not important at all to 5=Very important)	1.5263	2.093	-2.06	98	5%
16	i	**In your opinion, what are the causes of company failures in your industry?** Local infrastructures (1=Not important at all to 5=Very important)	3.9649	3.6279	0.98	98	Ns
16	j	**In your opinion, what are the causes of company failures in your industry?** Cultural barriers (1=Not important at all to 5=Very important)	1.2281	1.4884	-1.38	98	Ns
16	k	**In your opinion, what are the causes of company failures in your industry?** Bureaucracy burdens (1=Not important at all to 5=Very important)	2.4035	1.8605	1.85	98	Ns
17	a	**What is your company competitive advantage?** Company's image (1=Not important at all to 5=Very important)	5	5	na	98	Ns
17	b	**What is your company competitive advantage?** Product quality (1=Not important at all to 5=Very important)	5	5	na	98	Ns
17	c	**What is your company competitive advantage?** Technological efficiency (1=Not important at all to 5=Very important)	4.3684	4.7674	-1.82	98	Ns
17	d	**What is your company competitive advantage?** Quality of customer services (1=Not important at all to 5=Very important)	4.8246	4.9535	-1.58	98	Ns
17	e	**What is your company competitive advantage?** Product costs (1=Not important at all to 5=Very important)	4.5088	4.814	-1.64	98	Ns
17	f	**What is your company competitive advantage?** Management system (1=Not important at all to 5=Very important)	4.9649	4.8372	1.69	98	Ns
17	g	**What is your company competitive advantage?** Financial system (1=Not important at all to 5=Very important)	4.8246	4.6744	1.24	98	Ns
17	h	**What is your company competitive advantage?**	4.7895	4.814	-0.23	98	Ns

		Marketing system (1=Not important at all to 5=Very important)					
17	**i**	**What is your company competitive advantage?** Financial resources and capital assets (1=Not important at all to 5=Very important)	4.7018	4.6977	0.02	98	Ns
17	**j**	**What is your company competitive advantage?** Bank credibility (1=Not important at all to 5=Very important)	4.9474	4.8372	1.14	98	Ns
17	**k**	**What is your company competitive advantage?** Marketing research and customer intelligence (1=Not important at all to 5=Very important)	3.807	4.1163	-1.22	98	Ns
17	**l**	**What is your company competitive advantage?** Research and development (1=Not important at all to 5=Very important)	3.7719	4.3721	-2.05	98	5%
17	**m**	**What is your company competitive advantage?** Communication system (1=Not important at all to 5=Very important)	4.807	5	-1.90	98	Ns
18	**a**	**What are the other variables influencing your company success?** Geographic situation of the host country (1=Strongly disagree to 5=Strongly agree)	5	4.7674	2.72	98	1%
18	**b**	**What are the other variables influencing your company success?** Cultural aspects (1=Strongly disagree to 5=Strongly agree)	1.9649	2.5116	-1.67	98	10%
18	**c**	**What are the other variables influencing your company success?** Local infrastructures (1=Strongly disagree to 5=Strongly agree)	4.9474	4.6977	2.04	98	5%
18	**d**	**What are the other variables influencing your company success?** Abundance of manpower (1=Strongly disagree to 5=Strongly agree)	4.7368	4.814	-0.50	98	Ns
18	**e**	**What are the other variables influencing your company success?** Qualified workforce (1=Strongly disagree to 5=Strongly agree)	3.386	2.7907	1.95	98	10%
18	**f**	**What are the other variables influencing your company success?** Clear corporate mission and objectives (1=Strongly disagree to 5=Strongly agree)	4.9825	5	-0.87	98	Ns
18	**g**	**What are the other variables influencing your company success?** Effective strategic planning (1=Strongly disagree to 5=Strongly agree)	5	5	na	98	Ns
18	**h**	**What are the other variables influencing your company success?** Quality management (1=Strongly disagree to 5=Strongly agree)	5	5	na	98	Ns
18	**i**	**What are the other variables influencing your company success?** Product diversification (1=Strongly disagree to 5=Strongly agree)	4.386	4.7674	-1.91	98	Ns
18	**j**	**What are the other variables influencing your company success?** Effective pricing policy (1=Strongly disagree to 5=Strongly agree)	4.7193	4.8605	-1.09	98	Ns
18	**k**	**What are the other variables influencing your company success?** Availability of raw materials (1=Strongly disagree to 5=Strongly agree)	4.614	4.5814	0.15	98	Ns
18	**l**	**What are the other variables influencing your company success?** Supply reliability (1=Strongly disagree to 5=Strongly agree)	4.9649	4.9302	0.66	98	Ns
18	**m**	**What are the other variables influencing your company success?** Customer satisfaction (1=Strongly disagree to 5=Strongly agree)	4.9298	4.8605	0.68	98	Ns
18	**n**	**What are the other variables influencing your company success?** Research and development policy (1=Strongly disagree to 5=Strongly agree)	3.7895	4.4651	-2.19	98	5%
18	**o**	**What are the other variables influencing your company success?** Market shares (1=Strongly disagree to 5=Strongly agree)	4.8772	4.7209	1.26	98	Ns

18	**p**	**What are the other variables influencing your company success?** Strong recruitment policy (1=Strongly disagree to 5=Strongly agree)	3.2281	3.6977	-1.52	98	Ns
18	**q**	**What are the other variables influencing your company success?** Cooperation with other industries (1=Strongly disagree to 5=Strongly agree)	4.6491	4.7674	-0.95	98	Ns
18	**r**	**What are the other variables influencing your company success?** Excellent public relation (1=Strongly disagree to 5=Strongly agree)	4.7895	4.7442	0.37	98	Ns
18	**s**	**What are the other variables influencing your company success?** Service to the community and the country (1=Strongly disagree to 5=Strongly agree)	4.3509	4.814	-2.23	98	5%
19	**a**	**What is important to your company' planning, strategy setting & decision-making process?** Local commercial regulation (1=Not important at all to 5=Very important)	4.5263	4.6744	-0.76	98	Ns
19	**b**	**What is important to your company' planning, strategy setting & decision-making process?** Global trade regulation (1=Not important at all to 5=Very important)	5	4.9535	1.14	98	Ns
19	**c**	**What is important to your company' planning, strategy setting & decision-making process?** Local social values and customs (1=Not important at all to 5=Very important)	2.2632	3.2791	-3.34	98	1%
19	**d**	**What is important to your company' planning, strategy setting & decision-making process?** Investment codes (1=Not important at all to 5=Very important)	4.807	4.9302	-1.11	98	Ns
22	**a**	**What are your sources of initial investment capital?** Domestic (%)	43.5179	50.721	-1.08	97	Ns
22	**b**	**What are your sources of initial investment capital?** Foreign (%)	58.5741	50.452	1.23	94	Ns
24	**a**	**What is the percentage of output exported?** Export CFA (or Ghana) - Euro zone (%)	40.2229	22.778	2.48	82	5%
24	**b**	**What is the percentage of output exported?** Others (%)	53.1581	49.515	0.47	74	Ns
25	**a**	**What is the exchange rate arrangement preferred by your company?** Currency pegged to major international currencies (Y=1, N=0)	0.7857	0.2619	6.00	96	1%
25	**b**	**What is the exchange rate arrangement preferred by your company?** Completely flexible exchange rate (Y=1, N=0)	0	0.5238	-7.77	96	1%
25	**c**	**What is the exchange rate arrangement preferred by your company?** International trade and finance in term of industrial countries monies (Y=1, N=0)	0.2679	0.2857	-0.20	96	Ns
26	**a**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increases capital mobility (Y=1, N=0)	0.4737	0.5789	-1.00	93	Ns
26	**b**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Reduces exposures to exchange rate risks (Y=1, N=0)	0.9474	1	-1.44	93	Ns
26	**c**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increases benefit from portfolios diversification (Y=1, N=0)	0.2632	0.1053	1.90	93	Ns
26	**d**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Increasing openness to international trade (Y=1, N=0)	0.5263	0.3947	1.25	93	Ns
26	**e**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Shifting export towards manufactures (Y=1, N=0)	0.5088	0.1579	3.68	93	1%
26	**f**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Diversifying trade (Y=1, N=0)	0.386	0.0789	3.50	93	1%

26	**g**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Greater interregional trade (Y=1, N=0)	0.8596	0.4211	5.03	93	1%
26	**h**	**In your opinion, is a fixed exchange regime beneficial for the following reasons?** Reducing inflation (Y=1, N=0)	0.9649	0.9474	0.42	93	Ns
27	**a**	**Has the introduction of the Euro led to any of the following?** Adjusting foreign exchange transactions and habits (Y=1,N=0)	1	0.9767	1.14	98	Ns
27	**b**	**Has the introduction of the Euro led to any of the following?** Keeping informed of the Euro latest events (Y=1, N=0)	0.9825	1	-0.87	98	Ns
27	**c**	**Has the introduction of the Euro led to any of the following?** Retraining staff and the management (Y=1, N=0)	0	0	na	98	Ns
27	**d**	**Has the introduction of the Euro led to any of the following?** Investing in new technologies (Y=1, N=0)	0.386	0.3023	0.87	98	Ns
27	**e**	**Has the introduction of the Euro led to any of the following?** Decentralizing the administration (Y=1, N=0)	0.0179	0	0.88	97	Ns
27	**f**	**Has the introduction of the Euro led to any of the following?** Assets conversion (Y=1, N=0)	0.0702	0.0698	0.00	98	Ns
27	**g**	**Has the introduction of the Euro led to any of the following?** Redenominating debts and effects (Y=1, N=0)	0	0.0465	-1.67	98	10%
27	**h**	**Has the introduction of the Euro led to any of the following?** Developing new markets, products and skills (Y=1, N=0)	0.4386	0.4651	-0.26	98	Ns
27	**i**	**Has the introduction of the Euro led to any of the following?** Better exploitation of innovations, research and technological development (Y=1, N=0)	0.3333	0.3721	-0.40	98	Ns
28	**a**	**What are the benefits of the single currency, the Euro?** Price transparency (Y=1, N=0)	0.9825	1	-0.87	98	Ns
28	**b**	**What are the benefits of the single currency, the Euro?** Less currency convertibility issues (Y=1, N=0)	1	1	na	98	Ns
28	**c**	**What are the benefits of the single currency, the Euro?** Cheaper imports (Y=1, N=0)	0.5088	0.3488	1.60	98	Ns
28	**d**	**What are the benefits of the single currency, the Euro?** Export promotion (Y=1, N=0)	0.8246	0.4884	3.79	98	1%
29	**a**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Dealing with one currency instead of twelve different ones (1=Not important at all to 5=Very important)	5	5	na	98	Ns
29	**b**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** High integration between countries (1=Not important at all to 5=Very important)	5	4.8837	1.61	98	Ns
29	**c**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Reducing transaction costs (1=Not important at all to 5=Very important)	5	5	na	98	Ns
29	**d**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Principal sources of trading partners (1=Not important at all to 5=Very important)	4.7018	4.3488	1.79	98	10%
29	**e**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Low cost imports are guaranteed (1=Not important at all to 5=Very important)	3.9298	3.7143	0.70	97	Ns

29	**f**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Increasing market for company exports (1=Not important at all to 5=Very important)	4.7544	4.8837	-0.97	98	Ns
29	**g**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Price stability (1=Not important at all to 5=Very important)	4.9298	4.9302	0.00	98	Ns
29	**h**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Efficient use of cash (1=Not important at all to 5=Very important)	2.9649	2.186	2.40	98	5%
29	**i**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Controlling interest rate exposure (1=Not important at all to 5=Very important)	4.5965	4.5814	0.09	98	Ns
29	**j**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** High foreign investment due to increase trade links (1=Not important at all to 5=Very important)	4.8772	4.6047	2.21	98	5%
29	**k**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Better and easier access to EU capital market (1=Not important at all to 5=Very important)	5	5	na	98	Ns
29	**l**	**What are the benefits of a link to the Euro for your company in trading with euroland countries?** Reducing the burden of dollar denominated debts (1=Not important at all to 5=Very important)	3.4211	2.0698	4.40	98	Ns
32	**a**	**What are company benefits in operating in a fixed exchange rate states?** Exchange rate is less volatile (1=Strongly disagree to 5=Strongly agree)	5	5	na	89	Ns
32	**b**	**What are company benefits in operating in a fixed exchange rate states?** Price stability (1=Strongly disagree to 5=Strongly agree)	5	4.9118	1.76	89	10%
32	**c**	**What are company benefits in operating in a fixed exchange rate states?** Enforcing trade and investment (1=Strongly disagree to 5=Strongly agree)	3.7018	3.2941	1.50	89	Ns
32	**d**	**What are company benefits in operating in a fixed exchange rate states?** Inflation rate is under control (1=Strongly disagree to 5=Strongly agree)	4.807	4.9706	-1.46	89	Ns
32	**e**	**What are company benefits in operating in a fixed exchange rate states?** Disciplining monetary policy by controlling exchange rate (1=Strongly disagree to 5=Strongly agree)	4.8421	4.6471	1.57	89	Ns
32	**f**	**What are company benefits in operating in a fixed exchange rate states?** Growth of international trade (1=Strongly disagree to 5=Strongly agree)	4.0702	3.5	2.25	89	5%
32	**g**	**What are company benefits in operating in a fixed exchange rate states?** Reducing risks of foreign exchange rate fluctuations (1=Strongly disagree to 5=Strongly agree)	4.807	4.9412	-1.17	89	Ns
32	**h**	**What are company benefits in operating in a fixed exchange rate states?** Small fluctuation by maintaining pre-set narrow bands (1=Strongly disagree to 5=Strongly agree)	3.7544	3.8485	-0.39	88	Ns
33	**a**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Large foreign exchange reserves costs for international trade (1=No impact to 5=Serious impact)	3.6316	3.8387	-0.66	86	Ns
33	**b**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Cheaper imports (1=No impact to 5=Serious impact)	4	2.871	3.14	86	1%
33	**c**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Competition from foreign products (1=No impact to 5=Serious impact)	4.2632	4.871	-2.26	86	5%
33	**d**	**Could you evaluate your company's costs for operating in a fixed exchange rate regime?** Trading mostly with partners in developed countries (1=No impact to 5=Serious impact)	4.3509	4.625	-1.34	87	Ns
34	**a**	**Have you had any problems to operate in a flexible**	0.9792	0.9767	0.07	89	Ns

		exchange rate regime? Exchange rate is highly volatile (Y=1, N=0)					
34	**b**	**Have you had any problems to operate in a flexible exchange rate regime?** Price instability (Y=1, N=0)	0.9792	0.907	1.51	89	Ns
34	**c**	**Have you had any problems to operate in a flexible exchange rate regime?** Harming trade and investment (Y=1, N=0)	0.5106	0.1163	4.36	88	1%
34	**d**	**Have you had any problems to operate in a flexible exchange rate regime?** High inflation rate (Y=1, N=0)	0.9574	0.907	0.95	88	Ns
35	**a**	**What are your company's advantages in operating in a flexible exchange rate regime?** Adjusting monetary policy without worrying about the exchange rate (1=No benefit to 5=Very important benefit)	4.8367	4.9767	-1.13	90	Ns
35	**b**	**What are your company's advantages in operating in a flexible exchange rate regime?** Cheaper exports and high import price protection (1=No benefit to 5=Very important benefit)	3.898	3.1395	2.25	90	5%
36	**a**	**How do exchange rate appreciations affect company investment policy?** Higher export price seriously reduces competitiveness (Y=1, N=0)	0.8393	0.5952	2.79	96	1%
36	**b**	**How do exchange rate appreciations affect company investment policy?** Cheaper to replace imported equipment (Y=1, N=0)	0.7679	0.5476	2.34	96	5%
36	**c**	**How do exchange rate appreciations affect company investment policy?** Cheaper to purchase new technologies (Y=1, N=0)	0.7857	0.4048	4.13	96	1%
37	**a**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation stimulates exports and curtails imports (Y=1, N=0)	0.6316	0.4884	1.44	98	Ns
37	**b**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate appreciation damages exports and encourages imports (Y=1, N=0)	0.386	0.4186	-0.33	98	Ns
37	**c**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation improves exports price competitiveness (Y=1, N=0)	0.8772	0.5349	4.09	98	1%
37	**d**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation encourage regional trade (Y=1, N=0)	0.7193	0.7442	-0.27	98	Ns
37	**e**	**How do exchange rate adjustments affect company imports and exports?** Exchange rate depreciation affects dollar-denominated debts by requiring more francs to pay off dollar debts (Y=1, N=0)	0.2982	0.093	2.55	98	5%
38	**a**	**What are the advantages to a company which operates within a monetary union?** Encourages trade and financial flows (1=Not important at all to 5=Very important)	4.9474	4.8605	0.80	98	Ns
38	**b**	**What are the advantages to a company which operates within a monetary union?** Sources of funding for public and private borrowers (1=Not important at all to 5=Very important)	4.8421	4.5814	1.60	98	Ns
38	**c**	**What are the advantages to a company which operates within a monetary union?** Provides better channel for investment and savings (1=Not important at all to 5=Very important)	4.6667	4.7209	-0.30	98	Ns
38	**d**	**What are the advantages to a company which operates within a monetary union?** Elimination of exchange rates risks (1=Not important at all to 5=Very important)	5	5	na	98	Ns
38	**e**	**What are the advantages to a company which operates**	4.9825	4.907	1.44	98	Ns

		within a monetary union? Promotion of greater overall currency stability (1=Not important at all to 5=Very important)					
38	**f**	**What are the advantages to a company which operates within a monetary union?** Encourages intra-zone trade and investment (1=Not important at all to 5=Very important)	4.9123	4.907	0.06	98	Ns
38	**g**	**What are the advantages to a company which operates within a monetary union?** Reduces costs of hedging against currency fluctuations (1=Not important at all to 5=Very important)	4.9123	5	-1.06	98	Ns
38	**h**	**What are the advantages to a company which operates within a monetary union?** Elimination of transactions costs linked with conversion (1=Not important at all to 5=Very important)	5	4.9767	1.14	98	Ns
38	**i**	**What are the advantages to a company which operates within a monetary union?** Better transparency in pricing (1=Not important at all to 5=Very important)	5	4.9302	1.57	98	Ns
38	**j**	**What are the advantages to a company which operates within a monetary union?** Improving business competitiveness (1=Not important at all to 5=Very important)	4.8772	4.9302	-0.54	98	Ns
38	**k**	**What are the advantages to a company which operates within a monetary union?** Simplification of procedures and operational issues (1=Not important at all to 5=Very important)	4.2982	4.5116	-1.10	98	Ns
38	**l**	**What are the advantages to a company which operates within a monetary union?** A sizeable and unified market favorable to trade and investment (1=Not important at all to 5=Very important)	4.7719	4.7907	-0.15	98	Ns
38	**m**	**What are the advantages to a company operating within a monetary union?** Lower inflation and interest rates (1=Not important at all to 5=Very important)	5	5	na	98	Ns
39	**a**	**What are the costs for a company operating within a monetary union?** Less liberalized markets (1=Not important at all to 5=Very important)	4.0351	4.8605	-3.95	98	1%
39	**b**	**What are the costs for a company operating within a monetary union?** Policies inappropriate to domestic needs (1=Not important at all to 5=Very important)	2.9123	4.1395	-3.95	98	1%
39	**c**	**What are the costs for a company operating within a monetary union?** Concentration on monetary union export market (1=Not important at all to 5=Very important)	3.7544	3.881	-0.47	97	Ns
40	**a**	**What is the role of your bank in the foreign exchange transactions?** Efficient payment facilities (Y=1, N=0)	1	0.9762	1.18	97	Ns
40	**b**	**What is the role of your bank in the foreign exchange transactions?** Long term credit for investment (Y=1, N=0)	0.8596	0.5116	4.06	98	1%
40	**c**	**What is the role of your bank in the foreign exchange transactions?** Short term trade credit (Y=1, N=0)	0.9649	0.4186	7.60	98	1%
41	**a**	**How does your company deal with exchange rate risks?** Uncovered (Y=1, N=0)	0.1607	0	2.60	90	5%
41	**b**	**How does your company deal with exchange rate risks?** Forward market hedging (Y=1, N=0)	0.7857	0.9444	-2.09	90	5%
41	**c**	**How does your company deal with exchange rate risks?** Forward market option (Y=1, N=0)	0.2143	0.1944	0.23	90	Ns
42	**a**	**What are the company's foreign exchange risks?** Price level risk (1=Not important at all to 5=Very important)	4.7368	4.8837	-0.94	98	Ns
42	**b**	**What are the company's foreign exchange risks?** Interest rate risk (1=Not important at all to 5=Very important)	4.4386	4.4419	-0.02	98	Ns
43	**a**	**For you, which are the variables influencing exchange rates?**	5	4.9767	1.14	98	Ns

		Fluctuation in world prices (1=No impact to 5=Serious impact)					
43	**b**	**For you, which are the variables influencing exchange rates?** Inflation differentials with major trading partners (1=No impact to 5=Serious impact)	3.4211	3.6512	-0.92	98	Ns
43	**c**	**For you, which are the variables influencing exchange rates?** Capital inflows (1=No impact to 5=Serious impact)	4.7368	4.0233	3.77	98	1%
43	**d**	**For you, which are the variables influencing exchange rates?** Pace of market reforms (1=No impact to 5=Serious impact)	4.5439	4.814	-1.46	98	Ns
43	**e**	**For you, which are the variables influencing exchange rates?** Socio-political stability (1=No impact to 5=Serious impact)	4.9649	4.9535	0.22	98	Ns

Source: Sika ATSIN, Thesis survey 2005

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