



Alternatives to the CFA franc

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Introduction

This case study is part of a broader reflection on the economic and monetary future of Africa. It is based on the work and ideas developed by Manssah, a think-tank dedicated to the development of Africa by Africans, of which I hold membership. This analysis is also enriched by personal reflections on the subject.

Manssah is a collective of committed individuals from diverse backgrounds, united by a common goal: to address the major challenges hindering Africa's development and unlocking its potential. As a think tank dedicated to African development, Manssah strives to contribute innovative ideas, pertinent analyses, and pragmatic solutions. One of the key issues in this effort is the CFA franc, the currency used by 14 African nations, which is the focus of ongoing economic, political, and social debates (Le Thermomètre Manssah 1). This case study, aims to provide a comprehensive analysis of the CFA franc's origins, functioning, and controversies, while exploring potential solutions for a future that better aligns with the aspirations of African populations.

To gauge public opinion, Manssah conducted a survey of French-speak-

ing African populations and the diaspora, examining their perceptions and concerns about the CFA franc. The results showed that 94.8% of the 3,084 respondents favored abandoning the currency, and 66.3% believed it hindered trade with the rest of the world (Le Thermomètre Manssah 8-9).

This case study does not take a position for or against the CFA franc, but instead seeks to explore viable strategies for the countries using it to achieve monetary autonomy. By presenting potential paths to ending its use, the study aims to stimulate public debate and help decision-makers identify the most effective options for transitioning to a currency that better meets Africa's economic needs.

The CFA franc was created in 1945 to stabilize the economies of French colonies in Africa after the economic disruptions caused by World War II (Manssah Conference, 2024). Today, it is used in two currency zones: the UEMOA (West African Economic and Monetary Union) and the CEMAC (Central African Economic and Monetary Community).

The CFA franc is pegged to the euro, guaranteeing a fixed parity which, in theory, fosters stability and economic predictability. Countries using the

CFA franc are required to deposit a significant portion of their foreign exchange reserves to the French Treasury, a condition widely criticized in terms of monetary sovereignty. Although this measure is presented to guarantee stability, it limits the ability of member countries to implement independent monetary policy, essential for responding to contextual economic needs.

Criticism focuses on the CFA francs colonial heritage and implications on sovereignty; symbolizing a french neo-colonial sphere of influence. On the economic front, some experts argue that fixed parity with the euro can be restrictive, preventing countries from adjusting their currencies to their specific economic conditions, which could harm their competitiveness and growth.

Furthermore, the monetary stability provided by the CFA franc comes at the expense of flexibility, needed to respond to external economic shocks. This situation leads to a wider debate on whether African countries should maintain a linked currency with former colonial power, or move towards monetary autonomy, reflective of their economic realities.

Manssah Conference: How to Put an End to CFA Franc

Speech by Fatouma Sidibe Diarra
Malian lawyer Fatoumata Sidibe Diarra, co-founder of Manssah and member of the Economy & Finance, Governance & Institutions, and Natural Resources commissions, spoke at the Comment en Finir avec le Franc CFA conference organized by Manssah on March 17, 2024. Diarra raised key questions about the complex relationship between monetary sovereignty and economic independence.

Question 1: The Symbolism of the Name “CFA franc” and Monetary Sovereignty

The persistence of the name “CFA franc,” originally an acronym for “Franc des Colonies Françaises d’Afrique,” raises significant questions about monetary sovereignty. While the name has been officially reinterpreted to mean “Communauté Financière Africaine” in West Africa and “Coopération Financière en Afrique” in Central Africa, the historical association remains (Borel 45) (Kako Nubukpo 40). The term “franc” itself is crucial, as it derives from the word “France.” Even if the CFA’s meaning changes, the use of “franc” continues to denote an asso-

ciation with the colonial past. Monetary sovereignty is a central pillar of a state's autonomy, and maintaining this nominal link can be seen as a symbol of continued dependence.

Question 2: Printing Banknotes

The issue of banknote printing in French-speaking African countries touches on logistics and trust. Banknote printing is often centralized for reasons of security, cost and efficiency. However, the fact that French-speaking African countries do not directly manage this printing raises questions about their ability to legitimately control their currency.

Question 3: France's Convertibility Guarantee

France's guarantee of the convertibility of the CFA franc is a legacy of the original monetary agreement. This guarantee is supposed to bring stability and transparency, but it also places African countries in a position where their currency is closely tied to the economy of another country. This limits their monetary flexibility and ability to respond independently to economic crises.

Question 4: Foreign Exchange Reserves and the French Treasury

Depositing a portion of foreign exchange reserves with the French Treasury is intended to support the CFA franc's fixed parity with the euro. The fact that these reserves are held outside the countries themselves limits their immediate access to funds in times of economic need, withdrawing monetary sovereignty and the ability to control monetary policy

Conclusion

The discussion of these issues highlight the gap between formal political independence and real economic and monetary independence. The situation of the CFA franc illustrates the challenges facing African countries in their quest for economic autonomy. Debate of the CFA franc is not just a question of monetary management, but also a question of the socio-economic implications in terms of sovereignty, identity and the economic future. Thus, the underlying question remains whether maintaining this monetary system is in alignment or contradiction with the objectives for development and autonomy of African countries.

Speech by Cheikh Travaly.

At the same conference, Cheikh Travaly, who has 32 years of experience in the banking and mining sector and is also co-founder of Manssah (member of the Economy & Finance, Science & Technology, and Education, Culture & Values commissions) proposed these four scenarios, which offer a range of perspectives for the future of the CFA franc, each with its own implications. Here is an exploration of these scenarios:

Scenario 1: The transition Eco

Since May 2020, the West African Monetary Union (UMOA) has transitioned to a new currency, the Eco. However, within this framework, France continues to guarantee the currency's convertibility rate, which de facto maintains the fixed parity to the euro.

Advantages

Reduced obligations to the French Treasury: Despite maintaining the convertibility rate, West African Economic and Monetary Union (WAMU) countries are no longer required to deposit 50% of their export earnings to the French Treasury (Manssah Conference, 2024). This represents a step towards greater financial autonomy.

Reducing France's visible role: The

French presence is eliminated from several key bodies:

The Board of Directors of BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest) no longer includes French representatives (Manssah Conference, 2024).

France is no longer a member of the Monetary Policy Committee, which sets the zone's monetary guidelines.

The absence of French representation on the Banking Commission, the body that supervises and regulates commercial banks in the franc zone.

Maintaining the BCEAO's experience: The transition to Eco maintains the Central Bank's long experience in managing a common currency, which can ensure continuity and stability in monetary management.

Preserving regional unity through the adoption of the Eco monetary union between countries sharing a common history, culture and experience, which can foster regional integration and cooperation.

Disadvantages

Maintaining parity with euro and the impact on monetary sovereignty

Maintaining a fixed parity with the euro means that WAMU countries remain dependent on economic fluctuations in the eurozone. This situation considerably limits their ability to pursue independent monetary

policies, particularly in terms of exchange rates and inflation control.

The inability to adjust monetary policy in response to internal or external economic shocks can hamper the competitiveness of economies and their responsiveness to crises.

Ambiguity regarding the integration of non-CFA countries

The horizon and conditions for the integration of West African countries that do not use the CFA franc are not clearly defined. This uncertainty may foster tensions and hesitations among these countries, potentially slowing down or complicating regional integration.

The absence of clear criteria for integration raises questions about fairness and cohesion within the future monetary union, potentially jeopardizing the stability and viability of the Eco.

Superficial versus Substantial Changes

There is a perception that the changes brought about by transitioning to the Eco, whilst positive in terms of reducing France's visibility, could be superficial. The foundation of the system (i.e. dependence on an external power to guarantee the currency) remains unchanged.

This situation may give rise to criticism as to the true scope of monetary independence achieved through this transition. It is crucial that reforms go beyond cosmetic changes to address fundamental issues of sovereignty and economic control.

These drawbacks highlight the importance of a well thought-out transition to the Eco, where the countries involved must not only manage the technical aspects of the common currency, but also ensure that the changes genuinely contribute to greater economic autonomy and resilience.

Scenario 2: WAMU-CEMAC

The UMOA-CEMAC scenario envisages the creation of a common currency for the countries of West and Central Africa, replacing the CFA franc. This scenario proposes a radical break with the past by immediately ending the peg to the euro.

Advantages

Easy to implement on the basis of existing experience

The countries of the WAMU and CEMAC zones already have significant experience of managing a common currency, the CFA franc. This pre-existing experience can facilitate the transition to a new common cur-

rency, building on the structures, institutions and mechanisms already in place.

Central banks, financial institutions and regulatory frameworks in these regions have extensive knowledge of monetary coordination and cooperation. These assets can be capitalized on to implement the new currency

Monetary autonomy and flexibility

The creation of a new common currency, untied from the euro, would offer member countries greater monetary autonomy, enabling them to conduct monetary policies more in line with their specific economic realities and needs.

Flexibility in monetary policy management could improve the country's ability to respond to economic shocks and promote sustainable economic growth.

Alignment with business partners

Linking the new currency to a basket of currencies would better reflect the commercial realities of member countries, offering a fairer and more stable valuation of the currency in line with international trade.

Strengthening regional integration

The introduction of a common currency between WAMU and CEMAC countries would facilitate regional

economic and monetary integration, intra-African trade and contribute to regional economic stability.

Preserving Economic Stability

Although the transition process can present challenges, the experience gained in managing a common currency can help preserve economic and financial stability during the transition.

In short, the WAMU-CEMAC scenario capitalizes on the experience and achievements of member countries in terms of common monetary management, while offering an opportunity for greater economic autonomy and better alignment with international trade, thus strengthening the foundations for sustained economic growth and increased regional integration.

Disadvantages

Political instability and the use of currency as a pressure tool

Recent coups in Mali, Burkina Faso and Niger have demonstrated the political challenges facing the region. In these situations, the common currency has sometimes been used as a means for political pressure by regional entities such as WAMU, exac-

erbatating tensions (Manssah Conference, 2024).

The use of currency as an instrument of political pressure can have significant negative repercussions on the economy and population, contributing to increased economic instability and a deterioration in confidence between members of the monetary union.

Lack of Independent Money Management Expertise

Another major drawback is that franc zone countries have not developed substantial expertise in the independent management of their currencies, nor in the formulation of monetary policy tailored to their specific needs. This is partly due to historical dependence on monetary policy dictated by external interests, principally France.

This lack of experience could hamper countries' ability to effectively manage a new common currency and respond autonomously to monetary and economic challenges.

Fragile Intermetallic Trust

Trust between member countries, essential to the success of a monetary union, has been eroded by politi-

cal tensions and the use of currency as leverage in crises. Restoring this trust will be a major challenge, and a necessary one to ensure the long-term viability of any new common currency.

Lack of trust can lead to difficulties in policy coordination and adherence to the principles of the union, compromising the effectiveness of the common currency.

Risk of polarization and conflicts of interest

Differences in economic capacity, political priorities, and stability may lead to conflicts of interest between member states. These divergences could make joint management of the currency more complex and conflict-ridden.

Mitigation strategies

To mitigate these drawbacks, it is crucial to establish robust economic and monetary governance mechanisms that guarantee fairness, transparency and inclusiveness in decision-making.

Training and capacity-building programs in monetary policy and economic management are also essential to prepare countries to effectively

manage a new common currency.

Building ongoing dialogue and enhanced cooperation between member countries can help restore and maintain the confidence needed for the success of monetary union.

These measures could help overcome the challenges posed by the WAMU-CEMAC scenario and maximize the benefits of a common currency for all members.

Scenario 3: Eco and ECOWAS

The Eco, envisaged as a common currency for the 15 member states of the Economic Community of West African States (ECOWAS), has been under discussion for over 15 years (Manssah Conference, 2024). This currency would be pegged to a variety of currencies reflecting member countries' trade with the rest of the world. This scenario proposes to liquidate the vestiges of *Françafrique* and includes Nigeria, the continent's leading economy, which would create an important market in terms of trade space and investment capital.

Benefits

Greater regional integration and economic diversification: The introduction of the Eco could facilitate

regional trade and accelerate the economic integration and diversification of the region's economies.

Capacity to generate foreign exchange: With the inclusion of Nigeria and other diversified economies, ECOWAS would have a significant capacity for foreign exchange, supporting the value of the new currency. Macroeconomic policy autonomy: Autonomous management of their currencies would give ECOWAS countries total leeway to implement macroeconomic policies tailored to their needs.

Disadvantages

Political Instability and Clumsy Responses

Recent crises and coups d'état in countries such as Mali, Burkina Faso, and Niger have been met with clumsy responses from ECOWAS, affecting its credibility.

Loss of trust and risk of politicization: The possibility of ECOWAS being instrumentalized for political ends undermines trust between members, which is crucial to the success of a monetary union.

Leadership disputes and outside influences: Persistent leadership disputes, notably between Côte d'Ivoire and Nigeria, often exacerbated by

outside influences, have hampered progress towards this scenario.

Scenario 4: AES (Alliance of Sahel States)

The Alliance of Sahel States (AES), is a scenario being considered in the wake of political crises and coups d'état in Mali, Burkina Faso, and Niger. These countries have expressed their intention to leave ECOWAS, and are discussing the creation of a common monetary zone that would be separate and independent.

Advantages

Breaking with the status quo and liquidating the vestiges of Françafrique: This scenario marks a clear break with existing structures and a determination that puts an end to France's residual influence on economic and monetary policies.

Increased monetary sovereignty: By creating their own currency, these states regain complete control over their monetary, fiscal, and exchange rate policies, enabling them to respond more directly to their specific economic needs.

Autonomy in economic policy: The independent management of their currencies gives these countries considerable leeway to implement eco-

nomie policies that promote their development and meet their domestic challenges.

Protection against external economic pressures: By having their own currency, these countries are no longer subject to the economic pressures that could be exerted by supranational entities or foreign powers via monetary leverage.

Enhancing the value of natural resources: The presence of valuable natural resources, such as gold, in these countries can serve as a strong foundation for supporting the value of a new currency, using these resources as collateral or backing.

Disadvantages

Losses linked to economic integration: By leaving ECOWAS, Sahelian countries would lose the benefits associated with regional economic integration, such as reduced tariff barriers and easier access to the markets of neighboring countries. This loss could hamper their economic growth and reduce trade opportunities.

Trade and Logistics Barriers

Being landlocked and having no direct access to the sea, Sahelian countries depend on neighboring countries for trade. By leaving ECOWAS, they could face increased tariff and

non-tariff barriers when passing through ECOWAS member countries, which would negatively impact their exports and their ability to generate foreign currency.

Impact on Imports and Inflation

Increased tariff and non-tariff barriers could lead to higher import costs, resulting in price inflation for imported goods. This inflation could reduce people's purchasing power and worsen local economic conditions.

Lack of Experience in Money Management

Sahelian countries have little experience in independently managing their monetary policy. This shortcoming could pose significant challenges to the effective implementation and management of a new currency, increasing the risk of poor economic decisions that could further destabilize their economies.

Less Diversified and Integrated Economies

The economies of these countries are often poorly diversified and dependent on a few key sectors. The lack of economic diversification could limit their resilience to external economic and financial shocks, making

the management of a new currency more complex and risky.

High Transition Costs

The costs associated with transitioning from a common currency (the CFA) to a new currency include printing new banknotes and coins, designing new currency symbols, securing the production of these physical items, and establishing new trade agreements. These costs can be prohibitive, especially for countries with limited financial resources. Financing these expenses is a key concern and may require international support or new debt, further straining public finances.

Mitigation Strategies

To mitigate the risks and challenges associated with the creation of a new common currency by Sahelian countries, it is crucial to adopt a holistic and coordinated approach:

Capacity-building and local expertise: Develop training and technical assistance programs to strengthen monetary and economic management skills. This includes training in monetary policy, banking operations, and financial regulation to prepare institutions to effectively manage a new currency.

Economic diversification: Encourage the diversification of economies to reduce dependency on restricted sectors and improve resilience to economic shocks. This can include supporting emerging sectors and promoting innovation and entrepreneurship.

Infrastructure and regional development: Investing in critical infrastructure that supports economic growth and facilitates trade and commerce, such as transport, energy, and information technology.

Regional and international cooperation: Maintain constructive diplomatic and economic relations with former ECOWAS members and other international partners to minimize the negative impacts of regional fragmentation. This includes negotiating trade agreements that foster an environment conducive to trade without creating prohibitive barriers.

Virtuous and transparent governance: Ensure transparent and accountable management of the new currency through independent institutions, led by ethical experts, free from political influence. This will help build confidence in the new currency on a national and international level.

Financial and technical support: Seek financial and technical support from international organizations and development partners to cover transition costs, stabilize the new currency, and support the necessary economic reforms.

By implementing these strategies, Sahelian countries can overcome the challenges of establishing a common currency and lay the foundations of a stable, prosperous monetary union that supports their long-term economic and social development.

Personal Conclusion and Outlook

The Analysis of different scenarios for emancipation from the CFA franc clearly shows that possible solutions can be adapted and implemented at different times and in different contexts within West and Central Africa. The scenarios proposed are not exclusive but can evolve dynamically as successes and lessons are learned over time.

For the Alliance of the Sahel States (AES) countries, which have already initiated a process of separation from ECOWAS and are discussing the creation of a new common currency, a strategic partnership with Guinea Conakry could be beneficial. This would not only give them access

to the sea, but also enable them to benefit from Guinea's experience in monetary management. In addition, the expertise of countries that have successfully established robust monetary management, such as Rwanda, as well as the lessons learned from Southeast Asian nations that have successfully developed post-colonization, could be valuable models and inspiration.

For the other countries of West and Central Africa, scenarios 2 and 3 remain viable options. These countries could initially adopt one of these strategies, and could eventually join the AES, if this scenario proves successful. This would enable them to benefit from the advantages of greater regional integration, while retaining the flexibility needed to respond to the challenges specific to their regional context.

In the long term, if these countries succeed in uniting around a common currency, we could envisage a union built around a politico-economic union similar to the European Union. This ambitious vision could be the key to the African renaissance, a concept I explore in greater detail in my article entitled "The African Renaissance as an alternative to economic development", drawing on the work of José Do-Nascimento.

These prospects are not just theoretical hypotheses, but real possibilities that require ongoing commitment, extensive collaboration, and strong political will on the part of all the players involved. The road to true monetary and economic autonomy in Africa is fraught with pitfalls, but with a thoughtful and coordinated strategy, African countries can build a monetary future that supports their sustainable development and economic autonomy.

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