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# **French monetary neo-colonialism: the CFA franc**

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*« Nous préférons la pauvreté dans la liberté  
à la richesse dans l'esclavage »*

Sékou Touré



## ACRONYMS

AEF	Afrique Équatoriale Française
AOF	Afrique Occidentale Française
BCC	Banque centrale des Comores
BCEAEC	Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BEAC	Banque des États de l'Afrique Centrale
CAEMC	Central African Economic and Monetary Union
CEDEAO	Communauté Économique des États de l'Afrique de L'Ouest
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
ECA	African Central Bank
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EU	European Union
FCFA	Franc de la Communauté Financière Africaine
FDI	Foreign Direct Investment
FF	French franc
GDP	Gross Domestic Product
HDI	Human Development Index
IMF	International Monetary Fund
NGO	Non-Governmental Organization
OCA	Optimal Currency Area
OECD	Organization for Economic Cooperation and Development
PZE	Pays de la Zone Euro
UDEAC	Union Douanière et Économique de l'Afrique Centrale
UEMOA	Union Économique et Monétaire Ouest-Africaine
UMAC	Union Monétaire de l'Afrique Centrale
UMOA	Union Monétaire Ouest-Africaine
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WAEMU	Western African Economic and Monetary Union
ZMAO	Zone Monétaire Ouest-Africaine





## ABSTRACT

Il franco CFA – che all’origine significava “Franco delle Colonie Francesi d’Africa” – nacque nel 1945, quando diventò la valuta ufficiale delle colonie francesi nel territorio africano, che prima d’allora avevano utilizzato il franco francese (FF).

La valuta coloniale, infatti, era emessa e controllata dal ministero delle Finanze francese: la Francia poteva così decidere, secondo i suoi bisogni, il valore esterno della valuta, cioè la sua parità di cambio rispetto al franco francese. Imponendo sin da subito alle colonie un tasso di cambio fortemente sopravvalutato, le autorità francesi avevano come scopo l’utilizzo del franco CFA per mantenere il controllo delle colonie. Il fatto che il suo valore fosse superiore a quello del franco metropolitano rendeva i prodotti della metropoli più economici. Questo avrebbe quindi incentivato le colonie ad aumentare le loro importazioni dalla Francia, che all’epoca era economicamente fragile.

Negli anni '60 il colonialismo giunse al termine, le colonie francesi ottennero l’indipendenza, ma il franco CFA continuò ad esistere.

La Francia, infatti, fu l’unica ex potenza coloniale a mantenere la sua zona monetaria in Africa. Prima di concedere alle sue colonie l’indipendenza, le autorità francesi obbligarono i futuri Stati a firmare una lista di cosiddetti accordi di “cooperazione”, basati soprattutto sulla gestione della moneta. I paesi che utilizzavano il franco CFA erano obbligati a depositare le loro attività estere in un conto speciale del Tesoro francese, denominato conto operativo, e a passare attraverso il mercato dei cambi di Parigi per effettuare le loro transazioni con i paesi esteri. All’inizio degli anni Sessanta, quindi, le ex colonie africane della Francia, a parte qualche eccezione, mantennero l’uso del franco CFA grazie a questi accordi.

Attualmente, i paesi che utilizzano il franco CFA sono 15. Essi sono raggruppati in tre zone monetarie<sup>1</sup>: l’Unione economica e monetaria dell’Africa dell’Ovest (UEMOA), che comprende: Benin, Burkina Faso, Costa d’Avorio, Guinea-Bissau, Mali, Niger, Senegal e Togo; la Comunità economica e monetaria dell’Africa centrale (CEMAC), che comprende: Camerun, Gabon, Ciad, Guinea Equatoriale, Repubblica Centrafricana e Repubblica del Congo; e l’Unione delle Comore. Questi tre unioni formano la zona franco e hanno ciascuno una banca centrale, rispettivamente: Banca

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<sup>1</sup> Le tre zone monetarie utilizzano franchi diversi. La CEMAC e l’UEMOA possiedono franchi con lo stesso acronimo: per il franco della zona CEMAC, CFA sta per "Cooperazione Finanziaria dell’Africa Centrale", mentre il franco dell’UEMOA sta per "Comunità Finanziaria Africana". L’Unione delle Comore, invece, utilizza il franco delle Comore.

Centrale degli Stati dell'Africa Occidentale (BCEAO); Banca degli Stati dell'Africa Centrale (BEAC); e Banca Centrale delle Comore (BCC).

Queste ultime ricoprono diverse funzioni: definire e condurre la politica monetaria della loro Unione; emettere banconote e monete aventi corso legale e potere liberatorio nella rispettiva area valutaria; garantire la stabilità monetaria e finanziaria della loro area; mantenere i tassi di cambio fissi del CFA nei confronti del l'euro (prima del 1° gennaio 1999 il franco CFA era ancorata al franco francese); detenere e gestire le riserve ufficiali in valuta estera dei suoi Stati membri; e promuovere il corretto funzionamento dei sistemi di pagamento e regolamento per i suoi membri. Le banche centrali sono inoltre responsabili del controllo dei conti bancari delle tesorerie degli Stati membri e della vigilanza delle banche e delle istituzioni finanziarie che operano nelle rispettive zone.

Per quanto riguarda i meccanismi di funzionamento, il sistema CFA continua a basarsi su quattro principi correlati:

1. Parità fissa dei cambi: i franchi CFA erano prima ancorati in maniera fissa alla valuta francese, ma dalla nascita dell'euro, che è divenuta la nuova valuta di ancoraggio al posto del franco francese, 1 euro vale 655,957 franchi CFA. Quando il valore esterno della valuta di ancoraggio viene modificato, quello dei franchi CFA e delle Comore cambia proporzionalmente.
2. Libertà di movimento dei capitali: le transazioni correnti e i movimenti di capitali sono liberi all'interno della zona del franco, cioè tra i paesi africani e tra questi e la Francia e non sono soggetti a restrizioni valutarie.
3. Convertibilità illimitata: i franchi CFA e delle Comore possono essere scambiati con l'euro senza restrizioni. Questa convertibilità illimitata è assicurata dal Tesoro francese e ha la particolarità di concretizzarsi solo sotto la sua supervisione. Al di fuori di questo quadro, il franco CFA non è convertibile<sup>2</sup>: a differenza delle banconote in euro o in dollari, che possono essere scambiate quasi ovunque nel mondo, le banconote CFA possono essere scambiate solo all'interno della loro zona di emissione.
4. Centralizzazione delle riserve valutarie: BCEAO, BEAC e BCC devono depositare una parte delle loro attività estere in Francia, presso il Tesoro francese (all'inizio era il 100%; dai primi anni '60 era il 65%; dal 2005 per la BCEAO e dal 2007 per la BEAC è del 50%).

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<sup>2</sup> I due franchi CFA e quello delle Comore non sono liberamente convertibili neppure tra di loro, devono prima passare per l'euro. Ciò fa sì che l'euro sia l'intermediario privilegiato negli scambi tra paesi africani.

Per diversi anni, il franco CFA è stato oggetto di un acceso dibattito nato dalla necessità di rispondere alla seguente domanda: "Come è riuscita una valuta coloniale a sopravvivere dopo oltre 60 anni dalla proclamazione dell'indipendenza dei paesi che l'hanno usata?"

Secondo il governo francese e i suoi sostenitori, il franco CFA è diventato una "valuta africana" gestita dagli africani, ed è un fattore di integrazione economica e stabilità monetaria e finanziaria. Questa stabilità sarebbe assicurata dal loro punto di vista dalla fissità del tasso di cambio tra il franco CFA e l'euro e dalla bassa inflazione registrata nella zona del franco. Le autorità monetarie francesi sostengono, inoltre, di ricoprire solamente il ruolo di garante, agendo in modo del tutto disinteressato.

D'altro canto, secondo gli oppositori, la valuta CFA è a tutti gli effetti uno strumento di controllo che impedisce lo sviluppo delle economie africane, poiché è a Parigi che vengono prese tutte le decisioni relative al franco CFA. Inoltre, essi sostengono che se il franco CFA continua ad esistere è perché questo offre alle imprese francesi un accesso privilegiato ai mercati africani e allo Stato francese fonti affidabili di approvvigionamento di materie prime pagabili nella propria moneta. Il tutto con la complicità più o meno attiva dei Capi di Stato africani.

Questa tesi è stata scritta con l'intento di trovare una risposta alla domanda precedente, mirando a testare l'ipotesi che questo sistema monetario sia a tutti gli effetti una forma di neocolonialismo.

Si è arrivati alla conclusione che il sistema CFA non abbia stimolato né l'integrazione commerciale tra i suoi membri, né il loro sviluppo economico, né la loro attrattiva economica. Al contrario, ha privato gli Stati membri della possibilità di perseguire una politica monetaria autonoma, ha paralizzato le dinamiche produttive attraverso la limitazione dei crediti bancari e ha penalizzato la competitività dei prezzi delle produzioni locali attraverso tassi di cambio strutturalmente sopravvalutati. In 70 anni di esistenza, l'unico vantaggio tangibile del franco CFA è stato un basso tasso di inflazione.

Se il franco CFA continua ad esistere, è perché c'è un problema di leadership nei paesi della zona del franco. La maggior parte dei presidenti delle ex colonie francesi sono stati messi al potere con il supporto dei governi francesi. Pertanto, continuano a obbedire e curare gli interessi francesi. In passato, coloro che cercarono di reclamare la sovranità dei loro paesi furono o rovesciati (Modibo Keita in Mali a metà degli anni '60) o assassinati (Sylvanus Olympio in Togo a metà degli anni '60 e Thomas Sankara dal Burkina Faso a metà degli anni '80). Inoltre, i leader africani nelle ex colonie francesi hanno sviluppato una cultura di dipendenza e irresponsabilità: preferiscono lasciare che la Francia decida per loro in molte questioni. Quest'ultima, come affermato sopra, mira a soddisfare i

propri interessi e quelli delle sue imprese, le quali non sono gravate dal rischio di cambio e possono trasferire liberamente i propri profitti in patria, poiché non sono soggette a controlli sui capitali.

Il franco CFA sopravvive quindi perché soddisfa sia gli interessi francesi che quelli di alcune classi dirigenti africane.

D'altro canto, a perdersi sono la maggior parte delle popolazioni dei paesi membri della zona franco, costretti a importare ciò che potrebbero produrre localmente, a causa della sopravvalutazione della moneta. Quest'ultima, infatti, non permette ai paesi membri di avviare un processo di industrializzazione, rimanendo nella lista dei "Paesi meno sviluppati" (LDCs).

Fortunatamente in questi ultimi anni i cittadini africani si stanno rendendo conto della necessità di avere un'indipendenza economica per avviare un processo di sviluppo economico, e si stanno mobilitando per far sì che ciò accada.

Tuttavia, affinché questo nascente movimento popolare si traduca in un vero cambiamento, sarebbe necessario che anche la classe politica dei vari paesi della zona del franco facesse propria tale battaglia.

Certo, la lotta per l'indipendenza economica, e in particolare per la sovranità monetaria, è complessa, in quanto è difficile cambiare da un giorno all'altro le relazioni economiche, commerciali e finanziarie instaurate nel corso di diversi decenni; ma è una battaglia inevitabile senza la quale l'Africa rimarrà dominata e assisterà impotente al saccheggio delle sue immense risorse e all'accentuazione concomitante del suo impoverimento.

La richiesta di porre fine al franco CFA deriva dalla necessità di cambiare il paradigma dello sviluppo, dopo il fallimento del modello neocoloniale che ha impoverito i paesi africani e dopo le profonde trasformazioni che si sono svolte nel contesto globale per oltre mezzo secolo. Per questi motivi, anche la Commissione economica per l'Africa e l'Unione africana delle Nazioni Unite (UNECA) chiede ai paesi africani di esplorare altre vie di sviluppo e di porre fine al modello imposto dall'esterno dopo l'indipendenza e il cui fallimento è costato caro all'Africa (UNECA, 2011).

Negli anni, sono emerse diverse idee su possibili alternative al franco CFA. Alcuni economisti ritengono essenziale una riforma del sistema CFA, altri invece chiedono la sua abolizione.

Sta di fatto che la vera indipendenza dei paesi della zona franco inizierà con il controllo della propria moneta. Certo, l'abolizione della zona del franco e dei suoi meccanismi non risolverà tutti i problemi economici dei paesi che ne fanno parte, ma è comunque un passo necessario affinché questi paesi si sviluppino economicamente.



## INTRODUCTION

It is perhaps not widely known that, when its colonies in Africa gained independence in the early 1960s, France, while officially recognizing the political sovereignty of the new states, retained control of their economies through their monetary system. The Elysée, in fact, made sure that some of its former colonies continued to use the currency that was then in use: the CFA franc.

The CFA franc, which originally meant "franc of the French colonies of Africa", was born in 1945, when it became the official currency of the French colonies in Africa, which until then had used the French franc. The CFA franc was issued and controlled by the French Ministry of Finance: France could thus decide the external value of the currency - its exchange rate against the French franc - according to its needs. By imposing on the colonies a highly overrated exchange rate, the purpose of the colonial currency was to secure economic control of the conquered territories and to facilitate the drainage of their wealth to an economically fragile metropolis.

This currency still exists today and France, in addition to being the only former colonial power that managed to maintain its monetary zone in Africa, called the franc zone, is the only country in the world that directly controls currencies distinct from its own.

Currently, there are 14 states that use the CFA franc. They are grouped into two monetary zones: the West African Economic and Monetary Union (UEMOA), which includes Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo; and the Central African Economic and Monetary Community (CEMAC), including Cameroon, Gabon, Chad, Equatorial Guinea, the Central African Republic and the Republic of Congo. These two Unions each have a central bank and they have two separate CFA francs, which have the same acronym: for the franc of the CEMAC zone, CFA stands for "Financial Cooperation in Central Africa", while for the UEMOA franc stands for "African Financial Community". These two francs work in the same way and are pegged to the euro with the same fixed exchange rate (before 1 January 1999 they were pegged to the French franc). To these 14 countries is added a fifteenth State, the Union of the Comoros, which uses another franc, the Comoros franc, with a different central bank, but linked to France with the same mechanisms as the other two.

For several years, the CFA franc has been the subject of heated debate, arising from the need to reply to the following question: "How did a colonial currency manage to survive after more than 60 years from the proclamation of the independence of the countries that used it?"

According to the French government and its supporters, the CFA franc has become an "African currency" managed by Africans, and it is a factor of economic integration and monetary and financial stability; Paris claims to play only a role of solidarity, acting in a completely disinterested way.

On the other hand, according to its opponents, the CFA currency is effectively an instrument of control that prevents the development of African economies. It is in Paris that all the decisions concerning the CFA franc are taken, because the central player in this system is the French Treasury, which depends on the French Ministry of Finance. More than a simple currency, the CFA franc allows France to manage its economic, monetary, financial and political relations with some of its former colonies according to its interests.

This thesis aims to find an answer to the previous question, starting with a focus on the colonial origins of the CFA franc (Chapter 1) and aiming at testing the hypothesis that this monetary system is a full-fledged form of neo-colonialism.

The functioning of the CFA mechanism will then be described (Chapter 2), with a deep analysis of the four pillars on which the FCFA system is based:

- fixed exchange rate parity
- free movement of capital
- unlimited convertibility
- centralization of foreign exchange reserves.

Attention will then be placed on the benefits and obstacles created by this system, and how circumstances have changed due to two major events that have marked the history of the CFA franc: the devaluation of 1994 and the transition from the French franc to the euro (Chapter 3). This chapter will also point out the interests of France to remain at the head of this monetary system, by examining not only the advantages granted to the Elysée, but also the benefits that other actors derive from it (Chapter 4). Indeed, someone might wonder why the Member States of the franc zone are not abandoning the CFA system which is so damaging to them. Of course, if this system still exists, it not only provides benefits to France, which, in any case, has no qualms about using all the means of pressure at its disposal against those countries which question the CFA system, but also to other actors, such as some African Heads of State.

I will then show how the facts contradict the statements of the supporters of the CFA franc. In fact, contrary to what the latter ones claim, the members state of the franc zone, with a few exceptions, are all on the unsavory short-list of "Less Developed Countries" (LDCs) and "Heavily Indebted Poor Countries" (HIPCs) (Chapter 5).

After focusing on the past and the present struggles against the colonial currency (Chapter 6), the last part of this thesis will be centred on the alternatives solutions to exit from the actual monetary system, in particular on a possible end of the CFA franc with the creation of a new currency (ECO) (Chapter 7). After more than 60 years of independence, there is a widespread need to put an end to this colonial monetary system.





## CHAPTER 1 \_ THE GENESIS OF THE CFA FRANC

Established during colonization, the CFA franc remains today the only "colonial" currency still in use in 14 countries of sub-Saharan Africa. The French territories of Africa (franc zone) having transformed into Republics, continue to be economically linked to the France by this currency.

During the 1930s and 1940s, France issued in each of its colonies currencies that were pegged to the French franc. The CFA<sup>3</sup> franc as a currency was born on December 26, 1945 and was created by General de Gaulle under Article 3 of the Decree 45-0136<sup>4</sup>.

The reason for the creation of CFA franc was that when Paris ratified the Bretton Woods Agreement in late 1945, the French franc was devalued to put a fixed exchange rate with the American dollar in place. Thus, new currencies were created in French territories overseas to protect them from the devaluation and to facilitate exports to France to help Paris rebuild the country after the war (Taylor, 2019).

During colonization, the French occupied territories were divided into two distinct zones. L’Afrique occidentale française (AOF) and l’Afrique équatoriale française (AEF), according to the following distribution : Senegal, Mauritania, French Sudan (now Mali), French Guinea, Niger, Haute-Volta (became Burkina Faso), Côte d'Ivoire, Dahomey (now Benin) were to compose the AOF and Chad, Oubangui-Chari (Central African Republic), Gabon, French Congo (Republic of Congo) were to dial the AEF. These two federations were set up between the end of the 19th century and the beginning of the 20th century with the aim of “better coordinating administrative and economic activities in the colonies” (Ramde, 2004).

Before the wave of decolonization, in 1959, the AOF and the AEF were officially dissolved. However, we will see their transformation, supported by the colonial power, into new structures bringing together the new autonomous states.

Following the independence of most African colonies between 1954 and 1962, several countries, including Morocco, Tunisia, Algeria, and Guinea, exited the franc zone. However, the system did not disintegrate as might have been expected. On the contrary, it adapted to the new political reality. (Canac & Garcia-Contreras, 2011, pp. 55-56).

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<sup>3</sup> CFA = Franc des Colonies Françaises d’Afrique (franc of the French Colonies of Africa).

<sup>4</sup> According to Nicolas Agbohohou, with the creation of the CFA franc, De Gaulle’s France used in its colonies a monetary system that was similar to that used by Hitler for the occupied countries in Europe (Agbohohou, 2015). The monetary Nazism was manifested by the institutionalized presence of Nazi Germans in the heart of the financial system in the occupied countries or vassals such as France (Agbohohou, 2015).

Indeed, in 1962 the former members of the AOF formed the Union Monétaire Ouest-Africaine (UMOA). In 1964 the former member states of the AEF (plus Cameroon) also restored the old federation by setting up the Union Douanière et Économique de l'Afrique Centrale (UDEAC).

It should be noted that in 1955, a CFA Franc currency board<sup>5</sup> had been established in each federation, and an operating account<sup>6</sup> had been opened to them with the French treasury. With the dislocation of the federations in 1959, these currency boards were replaced by the Central Bank of West African States (BCEAO) and the Central Bank of the States of Equatorial Africa and Cameroon (BCEAEC) replacing respectively the currency board of French West Africa and Togo and the currency board of Equatorial Africa and Cameroon. As a result, the currencies that were issued by each of the banks adopted a nomenclature specific to the monetary union and to the central bank which structured it. The currency issued by the BCEAO was qualified as the “franc of the African Financial Community” and the currency issued by the BCEAEC was the “franc of the Financial Cooperation in Central Africa” (Kebe, 2019, pp. 19-20).

In spite of the member countries having gained their independence, the headquarters of these new central banks, which included French board members, were initially located in Paris.

These banks, dominated by France until the early 1970s, eventually took responsibility for issuing currency. The two different CFA currencies are legal tenders in their regional zones only. However, the CFA franc zone has generally been regarded as one currency sphere with a single currency. (Taylor, 2019, pp. 4-5).

It is through cooperation agreements, notably those initiated at the beginning of the 1970s, that the “metamorphosis of the Franc zone” (Guillaumont & Jeanneney, 2013) has begun. First, on November 22, 1972, the UDEAC states signed a monetary cooperation agreement with the French Republic. All UMOA states (except Mauritania that decided to leave the CFA area) did the same in 1973. . The UMOA met at that date with 6 Member States, which brought the cooperation project to term. The singularity of the agreement of 1972 is that it established, in its Article 3, the creation of the Bank of the States of Central Africa (BEAC)<sup>7</sup>, which aimed to ensure the implementation of monetary cooperation?

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<sup>5</sup> Currency board is fixed exchange rate regime with an additional feature: the central bank has to keep large foreign exchange reserves. It is based on the full convertibility of a local currency into a reserve one, by a fixed exchange rate and 100 percent coverage of the monetary supply backed up with foreign currency reserves. Briefly, the reserves have to be large enough to cover all the money in circulation and the deposits that commercial banks keep at the central bank (theglobaleconomy.com).

<sup>6</sup> See chapter 2.

<sup>7</sup> BEAC replaced BCEAEC

The objective of these agreements was to modify the structure of the economic and monetary relationship which had prevailed until then, in response to the aspiration to autonomy of the African States (Hugon, 1999). Obviously, they were to comply with the “Africanization” efforts that had been undertaken since 1959. We will therefore attend to a series of measures aimed at firmly anchoring the currency in the African wake and, thus, leaving management to local authorities, starting with the transfer of the headquarters of the central banks. The headquarters of the BEAC were transferred in 1977 from Paris to Yaoundé in Cameroon and the headquarters of the BCEAO to Dakar in Senegal.

It should be noted that these actions were carried out in a rapidly changing international economic dynamic. The Bretton Woods monetary system had in fact just collapsed and the world economy was shaken by the major oil shocks. These events served as an incentive for the implementation of reforms leading to greater financial liberalization and the creation of a money market, both at the level of the BCEAO and the BEAC. (Kebe, 2019, pp. 19-20).

However, as one commentator affirmed at the time: “The CFA franc continues to be guaranteed by the French Treasury and printed by the Banque de France in Chamalières in Auvergne-Rhône-Alpes”. Thus, for these African States, CFA currency make their economies very dependent on France’. (Taylor, 2019, p. 5)

As noted, the CFA franc was created on 26 December 1945, and it was, from its creation, pegged to the French franc (FF) according to the parity  $1 \text{ FCFA} = 1.70 \text{ FF}$ .

The CFA franc parity had been fixed without taking into account the specificities of the different colonial blocs. If the French authorities had wanted to take equal account of the interests of each territory, they would have had to design two currencies, one for the AOF and the other for the AEF, and assign each of them a different parity, in line with their respective economic situations.

But this was not the case; even worse, Paris assigned to the CFA franc an excessive value unsuitable for the economic conditions of both the AOF and the AEF, to which a heavily overvalued currency was imposed.

The fact that the value of the CFA franc was higher than that of the metropolitan franc made the products of the metropolis cheaper. This would therefore encourage the colonies to increase their imports from mainland France.

At the same time, a strong CFA franc would have had the effect of increasing the prices of the products of the colonies intended for exports and therefore of making them more expensive than those of their competitors in Asia and Latin America. So to get rid of excess production, the colonies would have to turn to the metropolis. The trade flows of the colonies would therefore be redirected in favour of the metropolis, which would have gained in terms of exports and imports, without having to touch their currency reserves. (Pigeaud & Sylla, 2019, pp. 31-33)

Its parity was later fixed at 0.5 CFA franc per French franc (October 1948).

This was because between 1945 and 1948 the CFA franc had followed the devaluation of the French franc against the dollar. Nevertheless, on 18 October 1948, the French franc was devalued further against the dollar as part of the Bretton Woods action and, in response, the CFA franc was revalued against the French franc to counteract most of this later devaluation. These parities remained stable until January 1994 and the CFA franc was not again revalued against the French franc.

On 1 January 1960, the French franc was redenominated. One hundred 'old' francs became one 'new' franc. Thus, from this moment onwards (until 1994), one CFA franc = 0.02 French franc.

This radically changed on 12 January 1994 when there was a sudden devaluation of the CFA franc, apparently to promote exports from the CFA zone. One CFA franc then became 0.01 French francs (Taylor, 2019, p. 6-7).

After this devaluation, the African countries of the Franc Zone had decided to put in place medium-term adjustment and growth policies, which should allow the consolidation of the macroeconomic framework and the intensification of structural reforms. These policies made economic convergence an essential foundation for monetary management and lead to the constitution of economic unions, complementary to monetary unions. The objective for the two zones was to "create the conditions for a dynamic of sustained and sustainable economic and social growth, through the constitution of a vast integrated, homogeneous and united sub-regional space" (Kobila & Sokeng, 1998). This is how the treaties establishing UEMOA and CEMAC were created. In fact, on January 1994, the UMOA was substituted by the UEMOA (Union Economique et Monétaire Ouest Africaine), implying that the west African monetary union had become an economic and monetary union.

Likewise, the group of Central African countries became both a monetary and an economic union. On March 16, 1994, these countries signed the treaty instituting the CEMAC (Communauté Economique et Monétaire de l'Afrique Centrale) to achieve both their monetary and economic objectives (Canac & Garcia-Contreras, 2011, pp. 55-56).

Far from marking the end of the "colonial pact", the birth of the CFA franc favoured the restoration of very advantageous commercial relations for France.

## CHAPTER 2 HOW THE FRANC ZONE WORKS

### 2.1 The role of the central banks

Today, as said before, the franc zone is composed of three separate and independent monetary unions: the West African Economic and Monetary Union (UEMOA), the Central African Economic and Monetary Community (CEMAC) and the Union of the Comoros (Coulibaly, 2014, pp. 2 -3).

Each of these zones have a central bank, respectively the Central Bank of West African States (BCEAO), the Bank of Central African States (BEAC) and the Central Bank of Comoros (BCC), which are linked to the Bank of France (to the European Central Bank after the introduction of the Euro) and to the French Treasury.

To understand the role of each bank in this complex economic process, it is important to understand what a central bank is and what its actual role in the economy of a state. As established by law, the role of central banks varies from country to country. The central bank is a public credit institution which coordinates all the different banks present on the territory of a country. It manages the currency of a country or a group of countries (as in the case of the European Central Bank) and controls the quantity of money in circulation (money supply). In addition, the main goal of many central banks is price stability. Central banks act more as coordinating institutions for all countries being part of the same monetary union and establish direct relationships with the governments of its members. If a country has troubles and risks bankruptcy, it will need the assistance of the central bank which will allow the government to take funds, in order to cover the deficits.

Returning to our case, the roles previously explained are covered by BCEAO and BEAC for UEMOA and CEMAC. Their main missions are:

- defining and conducting the monetary policy of their Union;
- issuing banknotes and coins that are legal tender and discharging power in their currency area;
- ensuring the monetary and financial stability of their area;
- maintaining fixed exchange rates of CFA vis-à-vis the euro;
- holding and managing the official foreign exchange reserves of its member states and promote the proper functioning of payment and settlement systems for its members.

The central banks are also responsible for pooling convertible currency reserves in their respective zones, controlling bank accounts for the member states' treasuries, and supervising banks and financial institutions functioning in their zones. Finally, they manage services for the member states which include representing them in international financial bodies, advising them on structural economic reforms, and providing personal training at both advanced and entry levels (Körner, 2002, p.199).

With regard to the composition, the African central banks are each administered by a Board of Directors formed as follows:

- BEAC: thirteen Directors, including three representing the French Republic<sup>8</sup>;
- BCEAO: sixteen African Directors (two directors per member state) plus "two Directors appointed by the French government", who "take part in the BCEAO Board of Directors' meetings, in the same conditions and with the same powers as the Directors appointed by the Members States of the Union"<sup>9</sup>;
- BCC: eight Directors, including four French representatives, appointed for a four years term renewable<sup>10</sup>.

This important presence of French interests at the level of one of the key decision-making bodies is critic. The Board of Directors manages the Central Bank and it ensures its functioning. In addition to their presence in the Board, France also has a veto right in the Board of Directors of the three African Central Banks, which they strictly control.

As the BEAC is concerned, the French monetary authorities have a right of veto on the board, which constitutes a quorum only if every participating state is represented by a minimum of one director (the BCEAO can only make changes to its statutes if there is a unanimous agreement).

The veto right for France also extends to the appointment of the Governor of BEAC. As Article 50, Paragraph 1 of the Articles of BEAC states, the Governor can only be named by the Conference of Heads of State of CEMAC upon the proposal of the Ministerial Committee of the Central African Monetary Union (Union Monétaire de l'Afrique Centrale), which is the organ responsible for monetary policy, with the unanimous consent of the Administrative Council.

As regards the BCEAO, instead, the article 82 of the statute of the BCEAO underlines that any changes in its own statute and other key decisions must be reached with the entire unanimity of the Board of Directors. Although the African members are the majority within the Board of Directors of both central banks, they don't have control in the management of operations without French agreement. According to Dominique Kounkou<sup>11</sup>, this arrangement supports 'la théorie des traités

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<sup>8</sup> Article 3 of the statutes of the BEAC.

<sup>9</sup> Article 10 of the Cooperation Agreement between France and WAEMU countries. In addition each member state was required to establish a so-called National Credit Committee consisting of the Minister of Finance, the two directors on the board of the BCEAO, four other members designed by the government of the state, and one representative of France.

<sup>10</sup> Article 34, Title III the Monetary Cooperation Agreement between the French Republic and the Islamic Federal Republic of Comoros.

<sup>11</sup> Dominique Konkou is a Congolese writer and lawyer.

inégaux' i.e. the theory of unequal treaties which were intrinsic to colonialism” (Taylor, 2019, pp. 1073).

When the agenda of the meeting of the Board does not meet France’s interests, it suffices to apply the empty chair policy to block the correct functioning of the central banks, and consequently, of their member States. This means that France continues the monetary colonialism through this legal provision, as it is a powerful tool for maintaining the *status quo ante*.

The monetary repression exerted by France in Africa is particularly evident for the financing of economic activities of CFA franc countries, as the Central Bank has the power to “grant current account overdrafts at its own discount rate, to the Treasuries of the States of the Union.”<sup>12</sup> Moreover, headed by France, “the Board of Directors determines the overall level of assistance which may be granted by the Central Bank to finance economic activity and development of each of the States of the Union”<sup>13</sup>.

As a result, by strictly controlling the still restrictive monetary policy and bank loans, France is crippling the labour force that is deliberately kept in a state of an endless structural, socio-economic underdevelopment, with negative dynamics against Africa (Agbohoun, 2015).

## **2.2 The fundamental principles and the operational account**

The mechanism of the Franc Zone as we know it today dates back to the agreements concluded in 1972 in Brazzaville. On November 23, 1972, at the Congolese capital, a Monetary Cooperation Agreement was signed between the French Government, represented by Mr. Giscard d'Estaing, and the Governments of Cameroon, the Central African Republic, Congo, Gabon and Chad.

For the first time, multilateral agreements connecting several states have been established. The agreements concluded in 1972, and defined an important change considering that the existing agreements were between France and one or two States only (Ndiaye,2020). Before that date, each state acted alone, so there was no cooperation between African states, although they had such an important element in common, the currency.

The changes made by the Convention and which still determine the functioning of the Franc Zone today can be summarized in four main principles:

- fixed exchange rate parity
- free movement of capital
- unlimited convertibility

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<sup>12</sup> Statutes of the BCEAO, Article 14

<sup>13</sup> Statutes of the BCEAO, Article 52, paragraph 7



- centralization of foreign exchange reserves.

### 2.2.1 Fixed exchange rate parity

Since its creation in 1945, it was established that the exchange rate of the new currency of African countries would be fixed. The CFA and Comorian francs were firmly anchored to the French currency, known as the "anchor currency". When the external value of the anchor currency changes, that of the CFA and Comorian francs change proportionally. This is what happened, for example, during the devaluation of the franc in 1948: since the franc lost 44% of its value against the dollar, it was necessary that the value of the CFA franc would also decrease by 44% to maintain parity (Pigeaud & Sylla, 2019, p.44).

Therefore, we can see that it was up to the French leaders to establish the equivalent of the colonial currency against the French franc. However, France had the power to modify this amount as wished for economic reasons linked to imports and exports and, afterwards, to devaluations.

Today, the exchange rate for 1 euro is equivalent to 655.957 FCFA. This rate was set in 1999, after the change from the French franc to the euro. Since then, it has remained fixed and has never been changed (see Table 1).

**Table 1.** CFA parity.

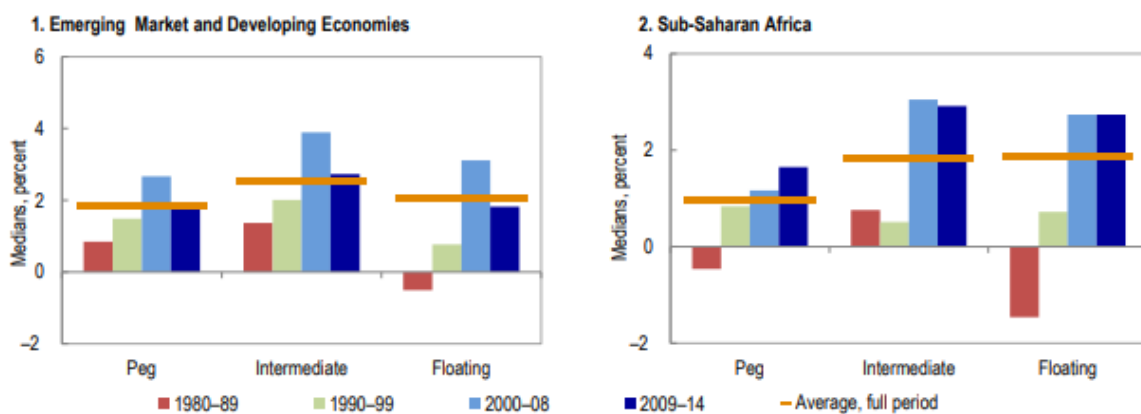
Creation of the CFA	26 December 1945	1 FCFA = 1.70 FF
Devaluation of French franc	17 October 1948	1 FCFA = 2.00 FF
Introduction of new French franc	1 January 1960	1 FCFA = 0.02 FF
Devaluation of CFA	12 January 1994	1 FCFA = 0.01 FF
Securing the CFA to euro	1 January 1999	655.957 FCFA = 1 euro

*Source 1 BCEAO, "Histoire du Franc CFA"*

According to its supporters, a fixed exchange rate regime allows to fight inflation and to facilitate trade. There is some truth in this. But the economic costs of such a system are often overlooked. It is well established that a fixed exchange rate regime tends to lead to a low level of inflation. Conversely, a flexible exchange rate regime causes a bit of inflation, but favours greater stability in the economic activity. It has a function of shock absorber that makes it possible to react to shocks and significantly reduce the volatility (variations) of production and employment; which a fixed exchange rate regime does not allow to do.

If you want to give priority to the stability of production and the volume of employment a flexible exchange rate regime must be chosen. On the other hand, if you want to favour the balance of payments equilibrium, or external equilibrium, then the fixed exchange rate can help. The problem is that the countries of the franc zone give priority to external equilibrium by maintaining the fixed parity at all costs. Central banks of the CFA system, for example, do not seem interested in improving the price competitiveness of the economies of their member states. As a result, in the UEMOA area, all countries, with the exception of Côte d'Ivoire, have a chronic trade deficit since the days of independence. IMF statistics seem to suggest that a fixed exchange rate is not necessarily a good deal for African countries: since 2000, sub-Saharan African countries operating in a fixed exchange rate regime have experienced economic growth ranging from 1 to 2 points less than in countries with a flexible exchange rate. This difference is due in particular to the lower growth of the member countries of the franc zone”, as stated by the Monetary Fund (Pigeaud & Sylla, 2019, p. 179) (Table 2).

Figure 2.5. Selected Samples: Per Capita GDP Growth Performance



Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) database; and IMF, World Economic Outlook database.  
 Note: Median estimates over indicated sample periods for the de facto classification.

It should also be noted that UEMOA and CEMAC are the only monetary unions in the world that include countries that are formally sovereign and whose exchange rate is fixed, moreover against another monetary zone.

Having a fixed exchange rate also means that the member countries of the franc zone, taken individually, do not have the possibility to use the exchange rate to absorb shocks. And this happens on a continent where political, climate and economic shocks are the order of the day (Pigeaud & Sylla, 2019, pp. 178-179).

### **2.2.2. Free movement of capital**

All operations carried out within the Franc Zone or with France can be done freely.

More precisely, the free movement of capital within the franc zone means that current transactions (settlement of imports and exports, repatriation of profits and dividends, remittances of

*Graphic12* SELECTED SAMPLES: PER CAPITA GDP GROWTH PERFORMANCE

expatriate workers etc.) and capital movements (purchase of securities or investments) are free within the franc zone, i.e. between African countries and between them and France. These transfers of funds are not subject to currency restrictions.

“Now, it is true that this clause is found in most bilateral investment treaties signed by African states, which believe they can attract an influx of foreign direct investment thanks to this mechanism, however it is a factor that considerably hinders the development of the interested countries, leading, most of the time, to an outflow of capital” (Pigeaud & Sylla, 2019, pp. 191-192).

Indeed, the free movement of capital has encouraged massive capital flight from the CFA zone, to the benefit of France, which is the main destination of capital outflows.

This capital flight from the franc have a negative effect on poverty reduction. “A study by Ameth Saloum Ndiaye of Université Cheikh Anta Diop de Dakar has clearly proved that between 1970 and 2010, 10 of the 14 CFA countries registered net capital outflows<sup>14</sup>. Among these 10, four faced capital flight with an amount surpassing US\$10 billion. At the top of this list was Côte d’Ivoire, with c.US\$40 billion leaving the country. Gabon lost c.US\$23 billion, Congo-Brazzaville US\$20 billion and Cameroon c.US\$11 billion. All of the six countries in CEMAC experienced capital flight of varying quantities, while only four countries in UEMOA recorded on balance capital inflows (Burkina Faso, Côte d’Ivoire, Guinea-Bissau and Togo). The net result is that between 1970 and 2010, UEMOA saw US\$19.4 billion leave the zone whilst CEMAC witnessed US\$67.5 billion exiting overseas” (Taylor, 2019, p. 1073).

### **2.2.3. Unlimited convertibility**

Another important feature of the FCFA is its unlimited convertibility. The convertibility of a currency is its ability to be freely exchanged. This factor has several advantages, mainly in economic exchanges. On the contrary, countries that do not have a convertible currency, such as the Cuban peso, only provide convertibility up to a certain amount. The CFA franc benefits from the unlimited convertibility that France has granted it following the monetary agreements established with the

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<sup>14</sup> Namely, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Côte d’Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau and Togo.

African authorities. It means that CFA and Comorian francs can be exchanged for the French currency (now the euro) without restrictions.

The French Treasury has pledged to lend all the necessary money to the central banks of the franc zone in case their reserves run out. Basically, when BCEAO members States (or BEAC) are in collective deficit of currencies, they can continue their transactions with the rest of the world as long as the French Treasury can provide them with currencies to cover their deficit. The currencies provided by France are considered a budgetary “assistance”, which explains why the Operational account (Comptes d’operations)<sup>15</sup> are in the French Treasury, not at the Banque de France (Dembele, 2016). The aim is to guarantee that central banks are never short of foreign exchange and can always settle foreign transactions or foreign exchange transactions on a daily basis, but also to ensure that the movement of capital is never restricted within the franc zone.

However, the other side of the coin is that the convertibility is only guaranteed with the euro, and not with other currencies, which means that any foreign payment made in CFA francs must first be converted into euros via Paris (the FCFA does not have the status of an international currency like the euro). Therefore, CFA franc notes can only be exchanged in their issuing zone, in Africa, more precisely within the franc zone. Outside this zone, the currency will no longer have any value and cannot be exchanged. The only solution will be to exchange the euro banknotes before leaving the zone and to exchange them again once arrived in the country of destination.

“For example, a citizen of the franc zone who goes to France will not find an official exchange office to convert his CFA francs into euros or any other currency. Similarly, an Australian citizen who returns home with CFA francs in his pocket will only be able to set them aside until his next trip to a franc zone country” (Pigeaud & Sylla, 2019, p. 45).

It should be noted that since 1933 the two CFA francs and the Comorian francs are not freely convertible even between them, for example if a Senegalese intends to go to Cameroon he cannot use the BCEAO CFA franc: first he is obliged to convert it into euros in his country and then in Cameroon convert the euro into the CFA franc, which is issued by the BEAC. This makes the euro the privileged intermediary in trades between African countries (Pigeaud & Sylla, 2019, p. 46).

#### **2.2.4. Centralization of foreign exchange reserves**

The final fundamental principle is the centralization of foreign exchange reserves. The central banks of the Franc Zone (BEAC, BCEAO and BCC) must deposit part of their foreign exchange reserves in the French Treasury in accounts called “operational accounts”. After the independence of

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<sup>15</sup> See paragraph 2.2.5.

African countries in the 1960s, this obligation covered almost all their foreign exchange reserves; today that percentage has been reduced from 65%<sup>16</sup> to 50%<sup>17</sup>.

In principle, the centralization of reserves would represent the counterpart of the guarantee of unlimited convertibility that France offers to the countries of the Franc Zone. As said before, this guarantee provides that in the event of a shortage of foreign currencies, the French Treasury would be obliged to grant an advance to the central banks of the Franc Zone in order to avoid a devaluation of the franc .

It should be noted that in addition to having to deposit 50% of their foreign exchange reserves, members are also required to “guarantee exchange cover for a minimum of 20% of their sight liabilities i.e. the total deposits which are repayable on demand, not including savings account liabilities or the deposits of any other bank. Finally, members are obliged to place a cap on credit extended to each CFA member country, equivalent to 20% of that country’s public revenue in the previous financial year. Since 2001, this imperative has changed and CFA countries requiring financing must go to the financial market and issue bonds” (Taylor, 2019, p. 1069).

### **2.2.5 Operations Account (Compte d’opérations)**

The implementation of the four operating principles requires the use of a particular bank account, specific for the franc area: the operation account. It is the key of this system.

The operation account is one of the most controversial aspects of the CFA. It falls into the category of "special accounts" of the French Treasury and was designed to allow economic operators to make payments from the colonies to the metropolis and vice versa in a stable monetary context (fixed exchange rate) and without restrictions (free capital movements).

Today the BCEAO, the BEAC and the BCC have all an operational account within the French Treasury's accounting register. That is where they must deposit the mandatory part of their foreign exchange reserves as a counterpart for convertibility. These operational accounts are denominated in euros. They are regularly credited and debited based on the inflows and outflows of money in the African countries belonging to the franc zone. Exports, international loans, emigrant remittances, foreign investment and development aid, among other things, constitute foreign exchange inflows. Imports, repayment of international loans, repatriation of profits and dividends, on the other hand, are part of the transactions corresponding to an outflow of foreign currency.

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<sup>16</sup> From the early 1960s it was 65%.

<sup>17</sup> Since 2005 for the BCEAO and since 2007 for the BEAC it is 50%.

The monitoring of the level of these special accounts, and therefore of the centralization rate, is carried out according to very strict rules. According to the BEAC operating account convention, for example, the French Treasury must send a daily report to BEAC regarding the movements on its operating account. The BEAC must notify the balance, in euro, of its foreign assets and, if necessary, carry out transfers to its operating account to comply with the mandatory 50% quota. The BCEAO and the BCC follow similar procedures.

When the operational accounts are in credit, we can therefore say that central banks finance the French Treasury by placing reserves in foreign currency at its disposal. In this case the French Treasury pays them interest. On the contrary, when operating accounts are in debt, central banks must pay interest to the French Treasury.

Assets in operating accounts benefit from a “depreciation guarantee” as regards the mandatory quota, which prevents central banks from losing money due to changes in exchange rates. “Let us imagine that the BCEAO, in January of this year, has 10 billion euros in its account. If a euro is worth as much as a dollar, this means that it potentially has a purchasing power of 10 billion dollars. Now, if the euro were to lose value in the following months, between February and December of the same year, and the exchange rate reached 2 euros = 1 dollar, the value of the BCEAO's assets would fall: its 10 billion euros would only be worth 5 billion dollars. The exchange guarantee helps prevent this type of situation” (Pigeaud & Sylla, 2019, p. 50). It was the African countries that asked for this guarantee after the devaluation of the French franc in 1969: this devaluation, in fact, led to a loss in value of their foreign assets, at the time held mainly in francs.

The Paris square (Paris exchange market) is essential for any purchase and sale of currencies different from the euro against CFA francs; to convert CFA francs into foreign currencies and vice versa, you must always go through the euro. Any purchase or sale of foreign currency against CFA francs goes through the operating account.

“Consider the example of a Malian company X selling cotton for a million dollars to a customer based in China. The million dollars his buyer owes him will have to pass through the Parisian exchange market to be exchanged for euros. The sum in euros will then be credited to the operating account of the BCEAO which, in turn, will pay the equivalent in CFA francs to the bank of X” (Pigeaud & Sylla, 2019, p. 51).

So, from this example it can be understood that, for every euro that is deposited in the operational accounts, its equivalent in CFA francs is created and made available to the recipient.

Overall, we can say that the member states of franc zone handed control over their monetary policy to France. It is the French Treasury (i.e. the State budget, not the Banque de France), which

has the power. The result is that control over the money supply, financial and monetary regulations and, eventually, budgetary and economic policies, are in the hands of the previous coloniser.

As regards the common account, French policy prohibits the revelation of data regarding the investment of this capital by the French Treasury. CFA members are thus uninformed where these funds are invested. Only France can access to this information and it is clear that the French Treasury profits from these currencies, investing the foreign reserves of the CFA states in its own name on the Paris Bourse.

An accurate analysis of the current interest rate paid out by the French Treasury on CFA deposits offers a sharper clarification. “In 2014, US\$20 billion of African money was held in trust by the French government in the Operations Account. This capital earned 0.75% interest (which at the time of writing remains the current interest rate). Yet in that same year, interest rates in France varied from a high of 2.38% (in January) to a low of 0.92% (in December). At no point in 2014 did French interest rates disburse as low as the Operations Account did. The following year, as Mar Bassin Ndiaye acclaimed, ‘In 2015, the BCEAO and the BEAC had to entrust the French Treasury with 50% of their reserves, 6,700 billion FCFA, and received only 45 billion in interest’” (Ndiaye, 2016).

Consequently, the centralisation of the currencies of the CFA zone and also the lodging of a large portion of their foreign reserves in France helps subsidise the French national budget and hence, French public debt.

Furthermore, another observation to make is that while the French Treasury paid out the capital generated by interest rates back to the central banks in the CFA zones, this interest is incorporated in the amount of French development aid funds given to African states. “In brief, much of what France asserts to give as ‘aid’, are literally funds originating from the recipients themselves, now only dressed up as French largesse. Additionally, the majority of French ‘aid’ comes in the form of loans, which must be paid back, with interest. France’s 2018 ODA budget provided for US\$291 million in bilateral financial and economic aid to be paid out by the French Development Agency (Agence Française de Développement); of this, US\$216 million (74%) were loans” (Taylor, 2019, pp. 1070-1071). The Operations Account is then a central element of the CFA zones underdevelopment, in that resources are being actively used, but utilized in ways which benefit France and not the dependent states from which the resources are sourced.

To make the situation even worse, CFA member states are unable to make use of this capital as collateral to obtain credit lines, as the exchange reserves are held in the name of the French Treasury. As I noted above, French representatives are present on the boards of both CFA central banks and thus a de facto French veto exists with regard to setting interest rates and monetary policy.

This is a fundamental policy device for sovereign states, but which cannot be exercised by CFA members.

Members are thus dependent on Paris to administer and control their own ostensible currency. Throughout its different expressions, we can state that the significant structural base of the CFA remains neo-colonial (Taylor, 2019).



## CHAPTER 3 \_ACTORS WHO BENEFIT FROM CFA SYSTEM

If the CFA franc continues to exist, it is because some actors benefit from it. The franc zone provides French companies with privileged access to African markets and the French State with reliable sources of supply of raw materials payable in their own currency. All this with the more or less active complicity of the African leaders who came to power with the support of the Elysée, developing a culture of dependency. Let us analyse in detail the benefits that these three actors derive from the FCFA system.

### 3.1 The benefits that France draws

The four principles of the franc zone, explained in the previous chapter, continue to make CFA francs and Comoros satellites of the French currency (today the euro).

*“France is the only country in the world to have succeeded in the extraordinary mission of circulating its currency, and only its currency, in politically free countries”*, observed the Cameroonian economist Joseph Tchundjang Pouemi in 1980 (Tchundjang Pouemi, 2000, p.27).

In fact, as former colonies achieved their independence, colonial currency blocs around Africa— the Belgian currency area, the pound sterling area, the Portuguese escudo area, and so on— were progressively dismantled. The new independent states decided to issue their own national currencies, as a symbol of their growth to the rank of internationally recognized sovereign states.

The exceptions were the sub-Saharan countries of the franc zone. Indeed, France had recognized independence to such countries only in case that African political leaders signed “cooperation agreements” governing future relations.

Covering fields ranging from raw materials to foreign trade, currency, diplomacy, higher education, armed forces, and civil aviation, these agreements sought to strengthen French sovereignty. (Sylla, 2020)

About the currency, according to the French authorities, the main purpose of the CFA franc is to provide "stability" to the economies which use it. This "stability" would be ensured by the fixed exchange rate between the CFA franc and the French currency and by the low inflation recorded in the franc zone. And it is the result of the monetary policy pursued by the central banks. They are forced to defend fixed parities in a context of full freedom of capital movements, as they are forced to ensure that operational accounts are in debt as little as possible<sup>18</sup>.

But, if the French authorities have been committed to maintain control of the CFA franc, to defend its integrity and to prevent African countries from leaving the franc zone, that is because they

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<sup>18</sup> The stability issue will be dealt further in the Chapter 5.

continue to regard it as an indispensable instrument which brings them many benefits. In fact, it is still the main weapon of the French State to ensure the continuity of "Françafrique"<sup>19</sup>, this system of domination that contributes to the survival of the former colonizer (Pigeaud & Sylla, 2019).

The CFA franc has benefited the French state since its creation. General de Gaulle used the franc zone to finance the war effort of France. Indeed, since its creation, the CFA franc was an integral part of an economic mechanism structured to guarantee that France's sub-Saharan colonies would help rebuild a metropolitan economy which did not have the strength to face up to international competition. Simultaneously it provided to an uncompetitive French economy easy markets and cheap raw materials.

The advantages that the Elysée obtains from the FCFA are therefore manifold:

- 1) The immediate benefit is the acquisition of raw materials. France has easy access to African strategic resources and buys them with its own currency cheaply [at stable prices?].
- 2) The French government is also one of the largest creditors in the franc area and its role gives it numerous advantages.
- 3) Another benefit concerns its role as guarantor of unlimited convertibility, which, as we shall see/we will see, is a purely formal role.
- 4) Furthermore, its presence within the monetary and financial institutions of the franc zone implies its influence in the decisions that must be taken by the unanimous decision of the directors. This means that it has an implicit right of veto over all the essential issues.

Let us see the first three benefits in detail (the last one we have already seen in chapter 2).

### **3.1.1 Privileged access to raw material**

*"France continues to extract strategic raw materials from the African continent, while its companies easily gain access to the markets of the region and have the opportunity to freely repatriate their profits"* (Pigeaud & Sylla, 2019, p.143).

As in the past, the CFA franc continues to give the French State privileged access to a wide range of agricultural, forestry, mining and energy resources: the operational account mechanism allows it to purchase these raw materials in its own currency. In fact, it has the great privilege of paying its own imports from the franc zone with its own currency without having to pass through

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<sup>19</sup> The term "Françafrique" refers to all the relations between France and its former African colonies, which have become independent, in order to denounce its ambiguous and opaque character. "Françafrique" would be made up of networks of influence and lobbies of French and African actors involved in the economic, political and military fields to divert to their profit the wealth related to raw materials (Kebe, 2019).

other currencies. This has been important in a world where the dollar was the main currency for international trade and the French franc was weak and unstable.

Moreover, the raw materials that the State imports at low cost, such as uranium and oil, are what allows it to maintain its rank of great power. In particular, the CFA franc provides Paris with a range of means of pressure, repression and control which, if necessary, enable it to go beyond the economic sphere and to guide the trajectory of the 15 African States of the franc zone.

In addition, thanks to the FCFA system, overseas countries remain for French exports large and stable markets.

However, it must be said that today France is now “only” the fifth largest exporter in Africa behind China, India, the United States and Germany. Since the early 2000s, it has continued to lose market shares in favour of China in the main “French-African” areas, especially Cote d'Ivoire, Cameroon and Gabon. In exchange for raw materials, the Asian giant granted many loans to the countries of the region, to the point of becoming the first bilateral creditor of sub-Saharan Africa with, in 2015, 55% of the total credits, much more than France (7%) (Institut Montaigne, 2017).

Nevertheless, although it has now been overcome for example in Cameroon and Congo, France is still in a good position in several countries of the franc zone, such as Côte d'Ivoire and Burkina Faso (Nubukpo, Ze Belinga, Tinel, & Dembele, 2016).

### **3.1.2 The role of creditor's benefits**

Thanks to the FCFA system, France remains one of the first creditors of the states of the area. This leads to some additional advantages: on every loan it grants, it earns money and means of pressure towards its debtors. Its privileged creditor position in the franc area is due to at least three reasons.

1. Firstly, the stability of the exchange rate offered by the fixed rate tends to stimulate indebtedness in the anchor currency: the exchange risk towards euro is lower than that to other currencies.
2. Secondly, the CFA system pushes, as we will see later, to curb domestic credit, forcing states to resort to foreign debt to finance their development.
3. Finally, the political dimension of the CFA franc, which places the States of the franc zone under the protection of the French Government, often forces them to turn to France in case of necessity.

For example, according to the United Nations Economic Commission for Africa (UNECA), France is the country that provided the largest funding to Cameroon between 1975 and 1998, by granting to the country 253 loans for a value of 5035 million of dollars. These loans,

however, involved a counterpart: in exchange for the loans obtained, Cameroon had to procure goods and services from France. Consequently, France was Cameroon's first creditor but also its main supplier (UNECA, 1998) (Pigeaud & Sylla, 2019)

### 3.1.3 The role of guarantor of unlimited convertibility

As explained in Chapter 2, in return for the fact that France guarantees unlimited convertibility, franc zone countries must deposit part of their foreign exchange reserves in the French Treasury. But, as we shall see, this guarantee of convertibility is a mere formality. It has rarely been put into effect since the French monetary authorities always acted in such a way that the reserves of the central banks did not run out and, consequently, they did not have to lend money to them.

It is on the basis of its role as guarantor that the benefits that France derives from this system are more clearly highlighted. Its commitment to ensuring the unlimited convertibility of the CFA franc into the euro and the underlying operational account mechanism gives it a central and indispensable role within the CFA system. Basically, the French government has the last word.

However, the French authorities are aware that their guarantee promise is partly unsustainable. The French Government is not in fact in a position to grant unlimited financial overdrafts to the countries of the franc zone. And this for at least two reasons. The first is that the French Treasury does not have the power to issue money, since this power is conferred exclusively on the central banks. Therefore, only the Bank of France could honour this commitment. But this is no longer possible: as a member of the European System of Central Banks (ESCB), it is independent of the public authorities and cannot finance the budgetary charges of the French Treasury. The second reason is that no country can have an "unlimited" budget. Each year the French Government proposes to Parliament a budget law setting out its estimates of revenue and expenditure for the coming year. The French budget is therefore fixed in advance and the amount that it intends to allocate under the "unlimited" convertibility guarantee is necessarily limited in this context. "*An unlimited guarantee is simply inconceivable*" said the economist Ndong Samba Sylla. In fact, France does not intend to activate any guarantee, unlimited or limited. This is stated in its budget for the year 2020: the amount indicated in the row dedicated to the convertibility guarantee of the two CFA francs and the Comoros franc is zero euro<sup>20</sup> (Légifrance, 2019). This is not an exception: the financial laws of previous years have the same characteristic (*tab. 3.1*).

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<sup>20</sup> Budget Law n° 2019-1479 of December 28, 2019 on finances for 2020 (legifrance.gouv.fr).

#### IV. – COMPTES DE CONCOURS FINANCIERS

(En euros)

Numéro de ligne	Intitulé de la recette	Évaluation pour 2020
	<b>Accords monétaires internationaux</b>	<b>0</b>
01	Remboursements des appels en garantie de convertibilité concernant l'Union monétaire ouest-africaine .....	0
02	Remboursements des appels en garantie de convertibilité concernant l'Union monétaire d'Afrique centrale .....	0
03	Remboursements des appels en garantie de convertibilité concernant l'Union des Comores.....	0

Tabella 3.1 Source: Banque de France

If the French Government excludes having to guarantee its convertibility, it is because it relies on the solidarity established between the African States through the centralisation of their currency reserves: the reserves of the large exporting countries, such as Côte d'Ivoire and Cameroon, compensate the scarcity of reserves in countries such as the Central African Republic and Togo, which have fewer resources. In addition, Paris has also introduced strict rules that make it unlikely that a "zero currency resources" situation will arise, particularly with regard to BEAC and BCEAO. Through their presence on the boards of central banks, the French representatives have the means to monitor their monetary management and, if necessary, can request corrective measures.

There is also an alert system to prevent the recurrence of overdrafts in operational accounts. When its operational account is in danger of falling into debt, the BCEAO (or the BEAC) must provide it with the necessary funds by depositing in it the foreign assets it holds elsewhere and, if necessary, the special drawing rights (SDRs)<sup>21</sup> which it would otherwise have deposited at the IMF.

In short, we are in presence of a mechanism that is incredible: France uses its supposed role as "guarantor" as a pretext for continuing to receive reserves from the countries of the franc zone without spending a single euro.

All the benefits explained above show that it is France that decides in the last instance, and the African countries are responsible of implementing.

<sup>21</sup> The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling (IMF definition).

### **3.2 Monopoly of French industries (and more) in the franc zone**

French companies often enjoy a monopoly position in the franc zone to the detriment of local entrepreneurship. The franc zone is, in fact, a very profitable area for large French and European groups, which overshadow African small and medium-sized enterprises and limit their development.

These companies developed more and more in African countries during the 1990s, taking advantage of the structural adjustment plans (SAP), which were initiated by the Bretton Woods institutions, to establish themselves in the African landscape. Indeed, the associated wave of privatisation coincided with a strong presence of French enterprises and French capital in the franc zone (Kebe, 2019).

In addition, over the years, the rise of the middle classes and accelerated urbanization have created new needs: urban services (construction, transport, water purification, waste management, electrification), but also mobile telephony, e-commerce and luxury products (champagne, cosmetics, etc.) (Piot, 2017).

Taking advantage of the lack of supply from the local African enterprises, in order to satisfy these new needs, the French industries have set up in a market where they have found themselves in the position of being able to be privileged suppliers. This is possible because African states have not been able to industrialize their economies and thus to transform their raw materials in such a way as to satisfy their domestic markets.

This is a vicious circle: imports of products which could have been produced locally limit the development of local industries. Consequently, French groups often enjoy a monopolistic position in the franc area, where they make "super profits", also thanks to low labour costs in the services and primary sector) and generous tax exemptions (Sylla, 2019).

In addition to these latter factors, there are other aspects that allow French industries, but also the European ones, to get numerous advantages in settling in the franc zone. Firstly, thanks to the fixed exchange rate, the risk of monetary depreciation between the CFA franc and the euro is zero, so these companies have nothing to fear when investing in this area. Thanks to this advantage, the expected returns from their investments are not likely to be distorted by changes in the euro/franc CFA exchange rate (Sylla, 2019). For example, a French company that plans to expand its export activities in Côte d'Ivoire knows that its potential profits will depend on the future value of the currency of its own country compared to the currency of Côte d'Ivoire. Since France and Côte d'Ivoire have fixed their currencies, the risks of fluctuating the value of the national currency as a function of changes in supply and demand are therefore neutralised (Kebe, 2019).

Secondly, thanks to the free movement of capital, French companies can repatriate profits made in the franc zone without restrictions, rather than investing them in local development, and they can disinvest quickly when the economic situation turns against them.

Groups such as Bolloré, Bouygues, Orange, Compagnie Fruitière, EDF, Castel, Total, Vinci, Areva, Lafarge, Somdiaa and many others benefit from these factors. These companies generate significant turnover, and it is around them that the whole economic activity of the area revolves. This is why the survival of some of these groups depends essentially on their African activities (Kebe, 2019). At the end of 2015, 14 French multinationals, first of which (in descending order of turnover) Total, Castel, Orange, Lafarge, Vinci, Bouygues and Technip, were ranked among the 70 largest groups based in Africa (Piot, 2017).

To better understand the imposing presence of these French (and other nationalities) multinationals, two examples are analysed below: the Orange and Bolloré groups. The African adventure of the telephone operator Orange dates back to the end of the 1990s, with what was called France Telecom. After initial acquisitions in the area (Côte d'Ivoire and Senegal) in 1997, the entrepreneurial history has accelerated since 2010. The group now claims 110 million customers in Africa (against 6.4 million in 2004), with a total turnover of 5 billion euros (against 1.5 billion in 2004), direct employment of about 21.000 employees, and over 700.000 people (together with other operators) responsible for the sale of prepaid cards<sup>22</sup>. This rise in power served as a model for the expansion of French economic activities in Africa. Now active in 21 countries, Orange aims at becoming a partner in the “digital transformation of Africa”, focusing in particular on e-commerce and the “digital shift” that traditional sectors (energy, agriculture, etc.) are taking (Piot, 2017).

With regards to the Bolloré group, it is one of the multinationals emblematic of the French presence in Africa. With its 250 subsidiaries and 23.000 employees in 49 African countries, Bolloré Africa Logistics has become in less than thirty years the first integrated African logistics network and a major player in port activity<sup>23</sup>. However, this went together with one constant element: since the early 2000s, the group has been accumulating trouble with the law in several countries. For example, since 2011, when Guinea ceded to it the management of part of the activities of the port of Conakry, a real judicial case has been initiated against the French giant. After several twists and turns, in 2015 the Guinean State imposed on all ships in Ro-Ro traffic (vehicles, trucks, mining equipment, etc.) the obligation to unload in the terminal managed by Bolloré.

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<sup>22</sup> Source of data: orange.com

<sup>23</sup> The African continent accounts for 25% of Bolloré's global turnover and 80% of its global profits (bollore.com). Source of data: bollore.com.

This decision was incorrect towards the competitors. In fact, in a letter to H el ene Le Gal, then Africa Advisor to President Hollande, the French businessman Jean-Jacques Grenier, head of several companies (Getma Guinea, AMA Guinea), wrote: *“This behaviour aimed at instituting a monopoly of port concessions and excessive port tariffs leads many young African leaders to reject the French presence, based on a system of economic exclusivity”* (Piot, 2017).

Supported by geostrategists, penalists, tax experts and lawyers, this multinational company, like so many others, did not hesitate to play with the boundaries of legality.

### **Not only the franc zone...**

Since the beginning of 2010, many French companies, and other nationalities, have turned to countries in Africa where they had little or no presence, such as the English- and Portuguese-speaking regions. In search of new contracts, they are now venturing out of the historic borders of their area of influence (the franc zone and francophone countries).

The list of actors of the new French expansionism is growing: JC Decaux (purchase of Continental Outdoor Media in South Africa), Danone (acquisition of shares in Fan Milk in Ghana and Brookside Dairy in Kenya, creation of an Africa management in 2015), Axa (acquisition of the insurer Mansard in Nigeria), Lafarge (investments in East and Southern Africa), Carrefour (opening of hypermarkets in Kenya and C ote d'Ivoire) or L'Or eal (which, in 2015, transferred to Johannesburg its research center on black skin and African hair, previously located in the United States). Even a giant like Total has chosen geographic diversification, with the inauguration of a floating offshore production unit—the CLOV platform—in Angola in 2014 and the launch of activities in Mozambique, a heavyweight in Lusophone Africa. (Piot, 2017).

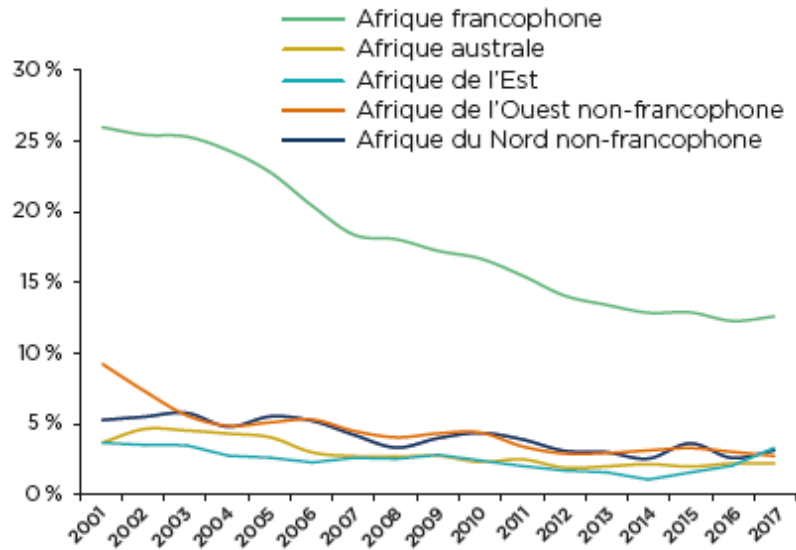
### **... and not only France**

In the light of the above facts, it goes without saying that the French business community has no interest in abolishing the system of the CFA franc. However, since the early 2000s, with the emergence of Chinese and Indian competition into the African continent, French companies have appeared defenceless in the face of a competition to which they were not at all prepared: despite



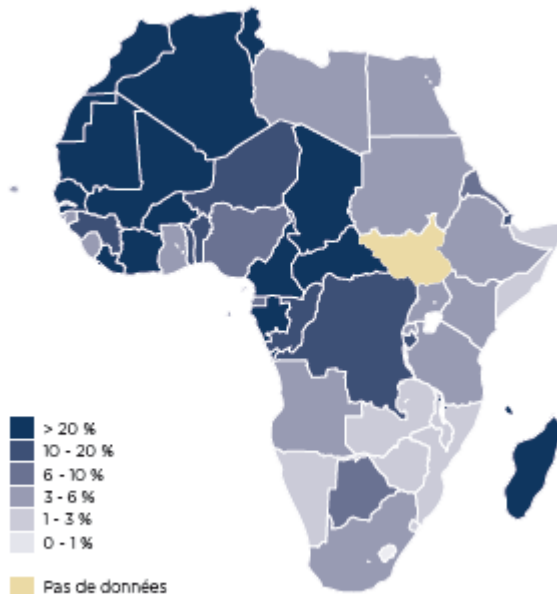
maintaining privileged positions in the countries of the franc zone, they have lost significant market share<sup>24</sup> (graphic 17 and figure 1 a/b) (Trinchi, 2019).

**Graphique 17 :**  
Parts de marché françaises en Afrique selon les zones



Sources : International Trade Centre (ITC), Coface

**Carte 1a :**  
Parts de marché françaises en 2001



**Carte 1b :**  
Parts de marché françaises en 2016



Sources : International Trade Centre (ITC), Coface

<sup>24</sup> The decline in market shares in the franc zone, however, is related to a relative decline: the turnover of French companies, in fact, continues to increase in absolute terms. "The portion of the cake decreases, but the size of the cake increases" (Sylla, 2019).

Between 2000 and 2011, France saw its market share in Africa fall by 50%, from 10.1% to 4.7%, while China's market share increased eight times between 1990 and 2011, from 2% to 16% (Védrine et al., 2013).

According to a study by the French Treasury (Pilius, 2013), in 2013, China started to exceed France also in the franc zone, with a market share of 17,7 % as against 17,2 % of France (Védrine et al., 2013).

Although France is ahead of China in Cote d'Ivoire, with a market share of 14% for the former, compared to 6% for the latter, in Senegal (17% vs. 10%) and Gabon (33% vs. 8%), sales are falling in several countries (CIAN, 2017). The drop in sales was particularly marked in these three countries. Between 2005 and 2011, France's market share decreased by 18 points in Côte d'Ivoire, 6 points in Senegal and 8 points in Gabon (Pillius, 2013) e (Védrine et al., 2013) o (CIAN, 2017).

Côte d'Ivoire, the cornerstone of the franc zone and champion of African growth (8.5% on average per year since 2012), is a striking example of how the mapping of French economic interests on the continent has been profoundly redesigned. From the 2000s, the Chinese developed dams there, the Turks the means of transport, the Koreans the power stations, the Moroccans the financial services and residential real estate. Even Germany is pointing to the franc zone with the "Africa plan" launched by Chancellor Angela Merkel. As a result, France's market shares declined (from 28% to 11%) between 1995 and 2010 (Piot, 2017). But, since the arrival in power in 2011 of Mr. Alassane Dramne Ouattara, close to the then president, Mr. Nicolas Sarkozy, French companies have counterattacked, "*with a large multisectoral artillery*": finance (BNP Paribas, Société générale, Axa, Allianz France), hydrocarbons (Total), insurance (Axa), electricity and water (ECP), building (Bouygues, Fayat, Vinci, Veolia), industry (Air liquide), agro-industry (Castel, Michelin, Compagnie fruitière, Bel, Danone), transport (Bolloré, Egis, Air France), hotels (Accor), distribution (Carrefour, CFAO), telecommunications and audiovisual (Orange, Bolloré). As a result, France remained at the end of 2015 the leading foreign investor, with a stock of FDI of 2.6 billion euros, 39% of the total FDI in the country (7 billion euros). At the end of 2016, approximately 700 French companies were present in Côte d'Ivoire (including nearly 200 subsidiaries) (Piot, 2017).

## **C2D and IDE**

Despite the threat of new competitors, the impact of French companies is still crucial in the franc zone, also thanks to the use of two instruments: debt reduction and development contracts (C2D) and foreign direct investment (FDI)<sup>25</sup>.

### **C2D**

The French monetary authorities have developed an instrument that allows large French groups to derive additional income from loans to African states: the Debt Reduction and Development Contract or C2D. This mechanism was created in 2001 following the decision of the donor countries to write off the debts of States that met the conditions of the “Heavily Indebted Poor Countries” (HIPC), on the initiative of the IMF and the World Bank. While the other donors have effectively cancelled the bilateral debts contracted by their partners, France has chosen to convert them in a very special way, as explained by the French Development Agency (AFD)<sup>26</sup>: “*«Once a heavily indebted poor country has signed a C2D with the AFD, the country continues to honour its debt until its repayment and, at each repayment deadline, the AFD returns the corresponding sum to the country in the form of a donation, which is then used to finance programmes to combat poverty*” (AFD, 2016). It is AFD that controls the entire process, participating in the choice of sectors to finance, controlling procurement, etc. According to its own data, the companies that obtain the contracts financed by this mechanism are essentially French. Thus, for the first C2D (€520 million) concluded in 2006 with Cameroon, 88% of road projects were assigned to French entities. Under the second C2D (€327 million), signed in 2011, evaluations and technical assistance for agricultural projects were all entrusted to French organisations. AFD explains this predominance by the fact that the French groups have been operating in Cameroon for a long time and have therefore acquired a know-how and more efficient sources of material supply than their competitors. The French loans facilitated by the CFA and C2D system thus allow French companies to consolidate their historical positions and monopolies, to the detriment of the development of the local entrepreneurship. (Sylla, 2019)

### **FDI**

With an amount of EUR 1.2 billion in 2000, the stock of French FDI in Central Africa increased sixfold to reach more than EUR 7.6 billion in 2017 (*graphic 1*) (DG Trésor, 2018). In

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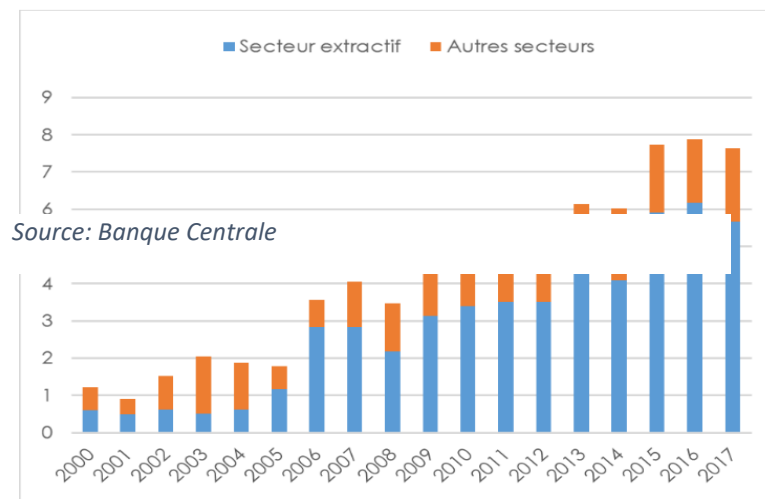
<sup>25</sup>Foreign direct investment (FDI) is a category of cross-border investment in which an investor (firm or individual) resident in one country establishes a lasting interest in and a significant degree of influence over an enterprise resident in another country. Ownership of 10 percent or more of the voting power in an enterprise in one country by an investor in another country is evidence of such a relationship (source: oecd-ilibrary.org).

<sup>26</sup> The AFD is the French public development finance institution.

particular, on average, in the UEMOA foreign direct investment flows amounted to 1.47% of GDP in 2018, while CEMAC stood out with an FDI flow representing 8.9% of GDP in 2018 (DG Trésor, 2018). This significantly higher proportion can be explained by the weight of the extractive industries in the economies of the Member States of CEMAC. In fact, the stock of FDI in the area is concentrated at nearly 75% in the extractive sector (*graphic 1*), mainly in oil and more marginally in the mining sector (DG Trésor, 2018).

French FDI in Central Africa is also concentrated in the in the sectors of trade (EUR 461.0 million in 2017, 6.0% of the total), banking and insurance (EUR 422.3 million, 5.5% of the total) and information and communication (EUR 259.7 million, 3.4% of the total) (DG Trésor, 2018).

**Graphique 1. Évolution du stock d'IDE français en Afrique centrale (Mds EUR)**



Indeed, in addition to the extractive sector, thanks to FDI, French companies are also consolidating their positions in distribution, financial activities and ICT (information and communication technologies) (*Table 1*) (DG Trésor, 2018).

**Tableau 1. Principaux secteurs destinataires des IDE français en Afrique centrale en 2017**

Secteurs	M EUR	Part du total	Croissance en 2017
Industries extractives	5 661,1	74,2 %	-8,2 %
Commerce	461,0	6,0 %	+8,9 %
Activités financières et d'assurance	422,3	5,5 %	+162,5 %
Information et communication	259,7	3,4 %	+20,3 %
Activités spécialisées, scientifiques et techniques	135,2	1,8 %	-6,5 %
Industrie manufacturière	108,3	1,4 %	-27,3 %
Production et distribution d'électricité et de gaz	104,4	1,4 %	-11,8 %
Construction	94,9	1,2 %	-4,6 %
Autres (*)	383,9	5,0 %	-3,4 %
<b>Total hors secteur extractif</b>	<b>1 969,8</b>	<b>25,8 %</b>	<b>+15,3 %</b>
<b>Total</b>	<b>7 630,9</b>	<b>100,0 %</b>	<b>-3,1 %</b>

(\*) Notamment transport et entreposage ; production et distribution d'eau, assainissement, gestion des déchets et dépollution ; santé humaine et action sociale ; activités immobilières.

Source : Banque de France

These are just two of the many instruments that French companies use to acquire new shares in the African market. Such moves are feasible thanks to the anchoring of the CFA franc to the euro. In case of disengagement of the CFA franc from the euro, the relative decline of France and the European Union in Africa would be immediate.

The state of mind of the French authorities is well summarised in a Treasury document, which explained in 2014 that the franc zone constitutes "*an economic and commercial potential for France*", that "*it is an important playing field for French companies*" and that "*France must take advantage of the close cultural and human ties that bind it to the franc zone to take full advantage of these growth poles*" (Direction Générale du Trésor, 2014). The Treasury added that: "*Faced with competition from major emerging countries (China, dia, etc.), French companies remain well positioned thanks to their recognised know-how, their knowledge of markets and new support mechanisms for the private sector*" (Direction Générale du Trésor, 2014).

### 3.3 African leaders

#### 3.3.1 The currency of the elites

The fact that France and the French companies benefit from the FCFA monetary system does not exclude that there are other players who benefit from it. Although created to serve French interests, this system also offers benefits to the African elites (upper classes), in particular to some heads of state and political classes. Otherwise, it could not be possible to explain the fact that after thirty years of independence it still exists, to the detriment of the citizens of these countries.

For that reason, the role of the African elites and the political class within the CFA zone in maintaining this scenario, which is objectively against the interest of their own countries, cannot be underestimated (Taylor, 2019).

The CFA franc can therefore be defined as the currency of the elites, as the ruling classes in these countries are highly favoured by the CFA system compared to the vast majority of the population. They are also structurally dependent on the former metropolis and this explains in part the persistence of this system nearly sixty years after independence (Nubukpo et al., 2016)

This postcolonial currency contributes to increasing economic inequality between ordinary people and the ruling classes of the franc zone countries, giving the latter more power. But why would these ruling classes act against the interest of their nation? What are the benefits they derive from the FCFA system? Let us look at them in detail (Nubukpo et al., 2016).

First of all, it allows elites to benefit from privileged access to the world market through a currency as good and strong as the euro, providing them with international purchasing power that gives them the opportunity to have access to the same goods and services as their Western counterparts. In fact, without the CFA, the import of the goods, that the ruling classes of the PAZF need for their own consumption and to remain in a dominant position, would be much more expensive.

Another advantage is linked to the free capital movement. It allows African political leaders and upper classes to invest their fortunes in Europe and elsewhere. They benefit from the ability to transfer financial resources freely into Europe without capital controls (Sturgess, 2013).

In addition, since there are no limits to convertibility, many of them deposit their money in foreign accounts placed in the countries of the euro area, which demonstrates their lack of confidence in the CFA franc and their lack of interest to make this system evolve.

These capital inflows obviously benefit the European economies. The same is true for the banks of the franc zone: due to the oligopolistic structure of their sector, they are able to realize high profits that guarantee them some among the highest profitability rates in the world (Diop, 2015).

For these reasons, most governments do not oppose this system created by France. This non-opposition is natural enough for a simple fact: as said by the Senegalese economist Demba Moussa Dembele, most Presidents in former French colonies have been placed in power with the blessing of French governments. Therefore, they continue obeying and looking after French interests.

Paris, as a result, continues to ensure that those who come to power in the franc zone states are committed or subjected to its cause. The leaders know that as long as they continue to facilitate the operations of the French State and its companies in their respective territories and to agree on the diplomatic positions of the French Ministry of Foreign Affairs, they will enjoy, for example, of some protection against their opponents. For them, not challenging the CFA franc thus represents the promise of a "peaceful" and sometimes "lasting" presidency, as can be seen in most of the oil-rich countries of the CEMAC<sup>27</sup> (Pigeaud & Sylla, 2019).

Under these conditions, it is obvious that the leaders have no incentive to improve the conditions of their fellow citizens, because they know that they will remain in power anyway, with or without their support. *“Aware of France’s interest in maintaining the CFA system, they know that the former metropolis will always be there to extinguish the flames in case of fire”* (Pigeaud & Sylla, 2019, p.163).

### **3.3.2 The position of the individual member states**

On the other hand, however, it must be said that not all African leaders think in this way, not everyone is in favour of the CFA franc. Let us see their positions in detail.

Out of fifteen countries in the franc zone, only four are against the CFA franc and want to get out of this system, the others are either in favour, or neutral. Going more in detail, countries can be divided into four categories:

1. neutral countries;
2. supporting countries;
3. countries with the aim to obtain an evolution of FCFA (for example a flexible exchange rate);
4. and opposing countries.

Guinea-Bissau, Equatorial Guinea and the Central African Republic are the three neutral states vis-à-vis the monetary issue. The leaders of these countries have not criticised or made proposals for reform by their governments about their common currency (Viallet, 2018).

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<sup>27</sup> For example: Chad’s current president has been in office since 1990; Cameroon’s president has been in office since 1982; Gabon’s president has been in office since 2009; Equatorial Guinea’s president has been in office since 1982.

On the other hand, the Comoros, Senegal, Côte d'Ivoire, Cameroon and Benin are the five countries in favour of the CFA system. In fact, not surprisingly four of them are the countries whose economies benefit most from the advantages of the CFA franc, as shown below.

In response to the growing number of anti-FCFA protests in Africa and Europe in December 2017, Comorian President Azali Assoumani said he considered "*the use of the FCFA by the former French colonies as a kind of shield preventing francophone Africa from seeing its currency collapse*" (Viallet, 2018).

In accordance with the statement of Azali Assoumani, the presidents of Senegal and Côte d'Ivoire, Macky Sall et Alassane Dramane Ouattara<sup>28</sup>, have repeatedly exalted the strength and stability of the CFA. Not by chance, they are heads of two of the most powerful states in francophone West Africa, whose economies are the most productive and whose labour markets are the most attractive in the sub-region. This situation is the result of a double movement enabled by the stability of their common currency, from which they derive the primary benefit: they are both the two main driving forces of their African economic and monetary area, the UEMOA, and also the main partners and targets of the economic investments of the French and European powers and companies in their sub-region.

With regard to Cote d'Ivoire, its official position can be summarized with the statement of the Minister of Economy Louis-Paul Motaze delivered in July 2017 talking about the monetary issue: "*This is a very important issue, but currently, this is not the biggest of our challenges. We need to strengthen our production system and diversify our economies*" (Viallet, 2018).

This is more or less the speech given by Beninese President Patrice Talon, who, without being naive about the disadvantages associated with the CFA, makes a very lucid statement: "*Is the CFA overvalued? Yes, but it is not appropriate to devalue it. It would be a disaster given the level of poverty. And to be able to bounce back, you need a little muscle,*" he said in January 2016 (Viallet, 2018).

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<sup>28</sup> The president-in-office of the Conference of Heads of State and Government of UEMOA, Alassane Ouattara, also honorary governor of BCEAO and president of Cote d'Ivoire, on 15 February 2019, told the press after an interview with the French President: "I have heard a lot of statements about the CFA franc and I do not understand this false debate (...). The CFA franc is our currency, it is the currency of countries that have freely chosen it, since independence in the 1960s (...). It is a currency managed only by Africans (...). It is solid, appreciated, well managed (...). Most of the economies that compose it are among the best in economic performance (...). I really hope that this false debate can stop. Our currency is the CFA franc and we are very happy to have this currency that is stabilizing for our economies, for our countries and for our people" (Cissé, 2019).



Instead, as regards the third category, three countries are part of it: Togo, Congo and Gabon. The President of Togo Faure Gnassingbé does not share the opinion of his neighbour in Benin and calls for a debate, believing that an evolution of the CFA is necessary because of the disparity and lack of integration of the economies between the Member States. He proposes a system in which the CFA franc would have a fixed exchange rate not only with the euro, but with a basket of international currencies <sup>29</sup>.

In complete agreement with the Togolese president is the president of Congo-Brazzaville, Denis Sassou N'Guesso. In a forum entitled "The sovereignty of a country is not judged by its currency" (Jeune Afrique, 9 January 2018), he clarified the position of the Congolese government, arguing nevertheless for "*controlled flexibility allowing FCFA adjustments of 10 to 15 % in relation to the euro*" (Ondongo, 2018).

On the other hand, Gabon's government relies more on the decrease in the percentage of reserves that are deposited in the French Treasury than on flexibility. In this regard, before the Minister of Finance submitted a proposal to deposit a smaller percentage of their foreign currency reserves in the operating account of the French Treasury, the President, Ali Bongo Ondimba declared in August 2016 that: "*No situation is perfect, ideal, there are things to change. But I prefer for the moment that we stay within the framework of the CFA franc, thanks to which we have protection*". (Viallet, 2018).

With a completely opposite point of view, there are the four Heads of State of the Sahel: Burkina Faso, Mali, Niger and Chad. They advocate the abandonment of the CFA and make this issue a political position.

In November 2017, the President of Burkina Faso joined the camp of those who advocate abandoning the FCFA. For Roch Kaboré, it is not conceivable to create a Burkinabe national currency, on the other hand he declared himself in favour of a single currency for ECOWAS and affirmed to believe in its future stability. In this, he echoed Malian President Ibrahim Boubacar Keita, who was also in favour of replacing their common currency with the single currency of ECOWAS; the latter had qualified the FCFA as a colonial currency on Al Jazeera in June 2017 and spoke of monetary sovereignty as a prerequisite to political independence.

For his part, Niger's President Mahamadou Issoufou appears publicly as one of the most pressing leaders in West Africa to adopt a single regional currency. In charge since 2013 of monetary

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<sup>29</sup> The results of the most recent "Afrobaromètre survey" in Togo show that unlike their leaders, a majority of Togolese (66%) are in favour of an exit from the CFA franc. The choice of Togolese on this issue depends on their perceptions of the country's current economic conditions and their own living conditions (Akinocho, 2019).

coordination in order to set up the single currency of ECOWAS (Economic Community of West African States), his hopes were disappointed in August 2017 by the President of the ECOWAS Commission, who justified the delay in adopting the currency by highlighting the asymmetries between states and the lack of convergence between economies.

Finally, the multiple statements of President Idriss Déby made the President of Chad the quasi-official spokesman of the anti-CFA franc. The most well-known of his interventions on this subject is his resounding appeal to African countries to leave the FCFA to create their own currency, which he pronounced on the day of the 55 years of his country's independence, on 14 August 2015 (Viallet, 2018).

So, to summarize, of all the Member States of the FCFA, only those with a colonial past with France have governments that contribute to the debate on monetary cooperation, while some leaders do not participate from one side or another, such as those of the Central African Republic, Equatorial Guinea or Guinea-Bissau. The most powerful and stable States of the two CFA zones, Côte d'Ivoire, Senegal, Cameroon and Benin demand their continued involvement in Franco-African monetary cooperation. They are closely followed by the leaders of Congo, Gabon or Togo, whose support is more nuanced, but which remain faithful to the current monetary system. Finally, there are the official opponents of the CFA franc, composed of the four Sahelian leaders, who are at the head of the most vulnerable states of the two African monetary zones. It remains to be seen whether the latter have the means to fulfil their ambitions, considering that unilateral withdrawal is permitted by the cooperation treaties, and that they have not yet triggered it (Viallet, 2018).

It is evident that four opponents out of fifteen member countries are very few, and this confirms what was stated at the beginning, namely that the majority of African leaders prefer to continue with this system, some of them with changes, because they obtain many personal benefits from it. This is quite ineffective with regard of their ability to represent their country, given that their aim should be to safeguard the interests of their citizens, most of whom are harmed by this system<sup>30</sup>.

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<sup>30</sup> 75% of the population of the franc zone is rural and they are the most damaged by the FCFA monetary system (source: FAO).

## CHAPTER 4\_ THE DEVALUATION OF 1994 AND THE ANCHORAGE TO THE EURO

The two most important events that marked the history of the franc zone are the devaluation of the CFA franc in January 1994 and of the anchorage of the CFA franc to the euro in January 1999.

### 4.1 The devaluation of 1994

#### 4.1.1 Before (the devaluation of 1994) ...

In 1994, against the advice of the majority of African leaders, France decided to devalue by 50% the CFA francs, modifying their parity with the French franc for the first time in forty-six years (the last time was in October 1948<sup>31</sup>).

*“The devaluation of 1994 was experienced and interpreted as the most significant post-colonial moment of a lack of monetary independence”* (Nubukpo et al., 2016, p.30).

But before talking about this event, let us take a step back. Before the great devaluation of the FCFA in 1994, between 1948 and 1986, the FF was devalued eight times against gold and the U.S. dollar. Indeed, the exceptional fixity of the exchange rate between the French franc and the CFA franc, between October 1948 and 11 January 1994, did not imply an absolute stability of the last one.

Between 1948 and April 1986, there were eight devaluations of the FF against the dollar and gold: 22.27% in September 1949; 20% in August 1957; 20% in June 1958; 17.55% in December 1958 with the French currency reform and the creation of the new franc; 11.1% in September 1969; 3% in October 1981; 5.75% in June 1982; 3% in April 1986. And the cumulation of these eight devaluation rates equals an overall devaluation of 70% of the FF against the dollar (Nubukpo et al., 2016).

This succession of devaluations of the FF resulted in equivalent devaluations of the FCFA against the dollar after 1948 (in order to maintain parity). This made it possible to increase the purchase prices (in FCFA) of the peasants' productions intended for export, stimulating them to produce more raw materials for export, whose foreign exchange revenues (US\$ and £) fed directly the reserves of the Bank of France. Exports from the franc zone benefited from a continuous improvement in their competitiveness, due to the quotation of their products in dollars on the world Stock Exchanges.

In addition, the devaluations served directly to stimulate farmers to produce more and more because they received more and more money in FCFA for their coffee, cocoa, palm kernel, cotton

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<sup>31</sup> On October 17, 1948, the CFA franc was revalued from 1.7 French francs to 2 French francs.

and other export products. This helps to explain the continued growth of the GDP of this franc zone country. But this lasted only until 1986. (Nubukpo et al., 2016). Until then, the countries of the franc zone enjoyed a certain prosperity. Their performance exceeded that of the neighbouring African states. Over the period 1970-81, the growth rates of gross domestic product (GDP) amounted to 4.1%, the inflation rate at 7.2% and the investment rate at 23.3%, compared to 2.3%, 10.2% and 20.8% respectively outside the franc zone<sup>32</sup> (Godeau, 1995).

During that period, the increase in GDP per capita placed Cameroon and Cote D'Ivoire at the same level of development as Indonesia and Thailand. All hopes were allowed. But the dream collapsed with the fall in commodity prices.

It all began in the 1980s with high world interest rates, falling commodity prices and the ensuing international debt crisis. In the detail, between 1986 and 1993 the exchange rates of the dollar in FF (and therefore of the CFA franc) collapsed, from 1540 to 1240 FCFA for 1 dollar. This reduced by 20% the export earnings of the franc zone, whose products were all quoted in dollars at the New York Stock Exchange. At the same time, following the oil counter-shock in 1986, there was a continued decline in the world price of dollar-denominated commodities, which aggravated the decline in export earnings in the UMOA area. This double decline in export earnings caused a huge deficit in the franc zone's external trade and the concomitant decline in the level of its foreign reserves deposited with the French Treasury, as the quotas required for outstanding credits to the economy and the money supply in circulation were no longer covered. (Nubukpo et al., 2016).

These effects worried the French Treasury, guarantor of the CFA franc, whose monetary management rules were no longer respected. Vis-à-vis the IMF, this huge drop in export earnings deprived the franc zone countries of the means of repayment of the external debt, after having paid the ordinary expenses of their budgets. In addition, this double fall in export earnings contributed to a 30% fall in the total GDP of the franc zone between 1986 and 1993 (*tab 4.1*), without any government being able to take counter-cyclical measures of economic recovery, due to bad governance habits.

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<sup>32</sup> Source: FMI.

LA ZONE FRANC ET L'AFRIQUE SUBSAHARIENNE(1)

	1986	1987	1988	1989	1990	1991	1992	1993
<b>CROISSANCE DU PIB RÉEL*</b>								
Zone franc	4,0	-1,7	-0,4	1,7	-1,0	-0,2	0,1	-1,9
Autres pays	2,1	2,5	5,7	4,0	2,7	1,6	-0,5	1,5
<b>CROISSANCE DU PIB RÉEL PAR HABITANT**</b>								
Zone franc	0,9	-4,4	-3,3	-1,3	-3,8	-3,2	-2,8	-4,7
Autres pays	-0,6	-0,3	2,8	1,1	-0,3	-1,2	-3,1	-1,0
<b>INFLATION*</b>								
Zone franc	3,4	0,6	2,4	1,2	1,0	0,4	0,2	-0,3
Autres pays	16,8	20,4	26,2	26,2	15,8	17,3	26,3	27,2
<b>SOLDE BUDGÉTAIRE GLOBAL**</b>								
Zone franc	-3,9	-9,5	-8,9	-8,8	-8,0	-6,8	-6,6	-8,1
Autres pays	-5,0	-5,7	-7,2	-4,1	-2,8	-5,3	-6,5	-8,2
<b>SOLDE EXTÉRIEUR COURANT (dont dons)**</b>								
Zone franc	-6,4	-8,9	-8,5	-7,1	-7,5	-6,5	-7,4	-6,7
Autres pays	-2,2	0,4	-1,8	-0,4	0,6	-0,6	-1,3	-1,2
<b>EXPORTATIONS DE MARCHANDISES**</b>								
Zone franc	25,8	21,2	20,4	21,8	22,5	22,9	21,6	22,4
Autres pays	21,1	25,3	23,6	25,1	25,9	23,4	23,5	24,0
<b>IMPORTATIONS DE MARCHANDISES**</b>								
Zone franc	19,8	19,3	18,3	19,1	18,7	17,6	18,2	18,5
Autres pays	18,5	20,6	21,5	21,6	20,7	20,7	21,7	22,2
<b>DETTE EXTÉRIEURE**</b>								
Zone franc	53,8	60,6	66,0	72,4	76,8	82,9	83,5	93,5
Autres pays	55,9	62,1	56,9	59,7	57,2	56,3	52,6	55,0

\* Variation annuelle moyenne.  
 \*\* En pourcentage du PIB.

Source : FMI, Perspectives de l'économie mondiale.  
 Scanned by TapScanner

Table 4.1 Source FMI

In fact, as regards the African governments, “they refused to face the facts” as Rémi Godeau<sup>33</sup> said. “The question of how to withstand a long decline in world prices for coffee, cocoa, cotton and oil, when a large part of public revenue comes from these raw materials, was not on the agenda” (Godeau, 1995, pp.107-108). The IMF estimates that, between 1985 and 1993, the terms of trade of the PAZF have decreased by almost 50%. In other words, a given country had to export one and a half times more pure coffee to buy the same amount of capital goods abroad (Godeau, 1995). The countries of the franc zone, such as Cameroon and Côte d'Ivoire, which until then seemed to enjoy a vigorous economic health, were severely affected.

As a result of the crisis, tax revenues were even no longer sufficient, in some franc zone countries, to pay public service salaries.

Under these conditions, it was becoming impossible for the franc zone countries to respect their obligations, in particular the repayment of their external debt. It was then that the IMF, which had already granted loans to several countries and did not see repayments coming, demanded a “real adjustment”, that is a reduction in domestic demand through a reduction in public spending and imports, to bring back into balance the public accounts and the external balance. But the IMF also

<sup>33</sup> Rémi Godeau is a French journalist, author of the book “Le franc CFA. Pourquoi la dévaluation de 1994 a tout changé”.

wanted to apply a “monetary adjustment” which had to materialize into a devaluation of the CFA francs.

France rejected this second measure: it was afraid of touching a precious symbol of Franco-African monetary cooperation. They wanted real adjustment and nothing else. But their domestic policy was going to complicate things. The socialist government of François Mitterrand, elected in 1981, has indeed opted for a strategy of “competitive disinflation”: having failed once in its attempt to revive the French economy, it wanted to achieve greater price competitiveness by reducing the inflation gap with competing countries. This plan involved anchoring the French franc to the Deutsche Mark, a strong and credible currency in the eyes of the financial markets, in the framework of the European Monetary System. The French franc was therefore appreciated and took with it the CFA francs, which were appreciated just as much (Pigeaud & Sylla, 2019).

The result was a significant deterioration in the competitiveness of African countries in the franc zone.

Exhausted by their past management mistakes, the states of the franc zone were forced to lower the guaranteed prices to agricultural producers and the social and investment spending. Due to the ceiling on domestic credit, they accumulated domestic payment arrears and let the foreign debt explode. In 1991, with the exception of Burkina Faso and Chad, all the countries of the CFA franc area had an external debt ratio exceeding 50% of GDP<sup>34</sup> (*tab. 4.2*). At the same time, foreign investors, taking advantage of the free convertibility of the CFA franc and the free transfer of capital, massively repatriated their profits and heavily disinvested (Van de Walle, 1991).

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<sup>34</sup> Source: banque-france.fr.

**DONNÉES ÉCONOMIQUES SUR LES ÉTATS-MEMBRES  
AFRICAINS DE LA ZONE FRANC**

	<i>Croissance PIB (%)</i>			<i>Inflation (%)</i>			<i>Solde budgét. % du PIB</i>		
	92	93	94	92	93	94	92	93	94
Bénin	4,1	3,6	4,2	3,5	0,6	54	-6,3	-3,1	0,5
Burkina	0,7	0,4	1	-0,5	0,5	29	-2,9	-4,2	-9,5
Cameroun	-6,4	-5,1	-1,8	8	-4	48	-14,1	-8,5	0,8
Centrafrique	-2,5	0,7	5,8	-1,9	-3	45	-14,6	-10,7	-3,2
Congo	1,5	-3,7	3,1	2,1	3,3	61	-21,8	-23,7	-2,6
Côte d'Ivoire	0	-1,1	1,7	3,4	2,1	32	-12,9	-16,2	3,3
Gabon	1,6	0,5	0,9	0,7	0,2	47	-5,9	-6,3	5,2
Guinée équatoriale	13	10	2,5	-6,7	nd	49	-4,5	-19,2	9,5
Mali	6,1	-0,5	2,4	-5,6	-1,1	25	-4	-4	-0,8
Niger	6,5	1,4	4	-5,1	-0,3	41	-4,7	-3,4	-4,7
Sénégal	2,9	-0,8	2,4	-0,5	-0,7	38	-2,4	-2,8	0,9
Tchad	-3,2	-3,7	4	4,1	nd	49	-18,5	-17,2	-4,4
Togo	nd	-5,6	16,3	nd	nd	55	-1	-1,5	-0,8

*Source : BNP.*

	<i>Solde courant % du PIB</i>			<i>Dette ext. en % du PIB</i>			<i>Service dettel/ exportations B&amp;S</i>		
	91	92	93	91	92	93	91	92	93
Bénin	-0,6	-2	-2,4	72	65	70	6	4	7
Burkina	-3,4	-3,3	-4,1	35	36	41	9	6	7
Cameroun	-2,3	-2,4	-7,5	57	67	72	17	17	22
Centrafrique	-4,6	-5,6	-1,6	65	64	75	8	9	5
Congo	-17,4	-11,6	19	205	191	249	25	13	11
Côte d'Ivoire	14,3	12,4	11,1	217	209	244	37	32	30
Gabon	3,6	-6,3	2,1	86	77	80	12	16	6
Guinée équatoriale	28	20,2	nd	203	165	nd	12	17	nd
Mali	-1,7	-3,8	-3,8	110	94	101	5	8	6
Niger	-0,6	-1,7	-1,3	70	71	72	25	16	31
Sénégal	-3,6	-4,3	-5,1	65	60	68	21	15	9
Tchad	-4,9	-6,5	-7,2	49	55	64	4	5	8
Togo	-4,3	4,5	5,6	85	88	104	9	7	9

*Source : BNP.*

Scanned by TapScanner

Table 4.2 Source BNP

African leaders did not want devaluation; they feared the economic, social and political consequences. Devaluation would in fact have the effect of increasing the prices of imports of goods and food, and therefore, since their countries were major consumers, domestic prices. So the purchasing power would go down, especially in urban areas. The risk was then to see the emergence of social tensions, that could destabilize the governments in charge. Another inevitable consequence would be the increase in their foreign debts, denominated in foreign currencies. In the case of countries exporting mainly primary products whose prices were fixed abroad, profits were not assured. Only agricultural countries, such as Côte d'Ivoire, could expect some positive effects: since prices for agricultural products were fixed in foreign currencies, the devaluation would have determined an increase in the value of their export earnings in CFA francs.

In the early 1990s, as the situation did not improve, the IMF returned to the charge with its devaluation project. This time, however, it could count on the support of its director, Michael Camdessus, former Director of the Treasury and Governor of the Bank of France. In order to be heard, at the end of 1991, he refused to continue lending money to Côte d'Ivoire, offering it two options. Either the country repaid its debts to the Monetary Fund or agreed to devalue. Otherwise, the country would be declared off-track, that is, it would have been excluded from the loan programmes of the two Bretton Woods institutions, the IMF and the World Bank. Opposed to the devaluation, the president of Côte d'Ivoire, Félix Houphouët-Boigny, was able to temporarily resist IMF pressure by borrowing from Paris the money needed to pay off the country's debt to the Fund. But the latter, like the World Bank, continued to exert pressure on other states, in the same way (Pigeaud & Sylla, 2019).

In 1992, rumours of an imminent devaluation spread, which exacerbated the flight of capital. This sparked panic among African leaders who had not received any notice from Paris.

But it was on August 2, 1993, in the wake of the EMS crisis and speculative attacks on the French Franc, that things became clearer: the monetary authorities of the Franc zone suspended refunds of CFA banknotes outside the Franc zone. Shortly thereafter, BEAC decided to no longer guarantee the convertibility of its CFA franc notes within the UMOA. The BCEAO did the same with regard to its banknotes within the CEMAC. The CFA franc notes of the two areas could no longer be exchanged directly between them, but had to pass through the anchor currency. The goal was to minimize the flight of capital.

On September 16, Édouard Balladur, the French Prime Minister, announced to the Heads of State that France would no longer grant advances to countries that had not concluded an agreement with the IMF and the World Bank. The same message was communicated a few days later by Edmond Alphandéry, French Minister of Economy, at a meeting of the Finance Ministers of the franc zone in Abidjan. This new policy, called the "Abidjan Doctrine" or "Balladur Doctrine", made devaluation an obligatory passage, since the IMF would continue to deal only with States that have accepted the devaluation. The latter was no longer a means of correcting macroeconomic imbalances but the condition for African states to have access to funds.

The last act of this procedure took place in January 1994 in Dakar.

Officially, the representatives of the countries of the franc zone, including ten heads of state, were meeting there to decide the fate of the airline Air Afrique which was going through a serious crisis. In reality, they talked for hours about the devaluation, which they always wanted to avoid, with officials from the French Treasury, including its director Christian Noyer, the French Minister of Cooperation Michel Roussin, IMF director Michel Camdessus and World Bank official Katherine Marshall.



*“After 17 hours of closed-door discussion, the African leader threw in the towel and on the evening of 11 January, at 20:55, the Cameroonian finance minister Antoine Ntsimi, announced to the media that, starting from midnight of 12 January, 1 FCFA would be exchanged for 0,01 FF, against 0.02 previously”* (Pigeaud & Sylla, 2019, p.118)<sup>35</sup>.

#### **4.1.2 ... and after the devaluation of 1994<sup>36</sup>**

Applying the same devaluation rate to 14 different States did not make much sense, since the level of over-valuation of the exchange rate differed from country to country. The fact is that both France and the IMF wanted to defend their interests first. And that is what they did (Parmentier & Tenconi, 1996).

France got at least three great benefits:

1. Thanks to the single devaluation rate, it maintained the franc zone intact.
2. By joining the IMF and using it as a cover, it was able to escape his role as guarantor. It did not have to pay out a penny because it did not guarantee convertibility. If the French Government had kept its commitment to grant an unlimited convertibility guarantee, the devaluation would never have taken place. Especially since most African heads of state were against it. In deciding to devalue, France chose a solution which had the advantage of quickly restoring the hedging rate of the monetary issue to a more appropriate level, a level which made its guarantee superfluous again.
3. The 50% devaluation allowed it to double its financial capacity in CFA francs from one day to another.

As regards the IMF, it benefitted from the application of this monetary adjustment measure, which had the merit of lowering the cost of African goods for Western buyers. Instead of the financing promised in case of devaluation, all the countries concerned were forced to adopt structural adjustment plans, consisting mainly in the privatisation of public enterprises and budget cuts in various sectors (education, health, agriculture, etc.) (Domptin, 1994). These budgetary restrictions led to massive layoffs in public administration and significant wage cuts.

Concerning franc zone countries, the devaluation did not generally favour the recovery of the industrial sector. The main beneficiaries were the agricultural countries. For example, despite a 90% increase in the price of inputs, Ivorian cocoa became competitive again. The revision of the parity of

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<sup>35</sup> As regards the Comoros franc, it was devalued by 33%: now a Comoros franc was worth 0.0133 French franc against 0.02 French franc before.

the CFA franc also brought an advantage to cotton-producing countries due to the greater price competitiveness. In net importing countries, such as Senegal (net rice importing country), the balance was negative. The effects of this devaluation were drastic for a population that consumed mainly imported manufactured products. Overnight, the population found itself with doubled prices. The decline in real incomes of the current population was accelerated. The purchasing power of households, particularly in urban areas, collapsed due to the explosion in the price of imported consumer products (food, medicines, etc.) and to the fact that this devaluation was not followed by an increase in wages. Furthermore, instead of a redistribution of income from urban to rural areas, there was an increase in inequalities.

After the facts which took place, in order to avoid another devaluation, the member countries of the CFA franc zone undertook extensive reforms aimed at preventing a recurrence of the conditions that led to the devaluation. They signed the Treaty of Economic and Monetary Union, which made the CFA franc area not only a monetary union, but also an economic union. Consequently, WAMU became the Economic and Monetary Union of West Africa, WAEMU, while the similar Central African organization, UDEAC, became the Economic and Monetary Community of Central Africa, known by the French initials CEMAC. The objectives of this new economic and monetary union were to create a common market, monitor economic performance and create regional policies (Abrohms & Schuler, 2019).

*“It was during this phase of economic consolidation from a low base - as chance would have it, also coinciding with the CFA zone's sixtieth anniversary - that the substitution of the euro for the French franc as the reference currency came "riding on to the scene"”* (Korner, 2002).

#### **4.2 France adopts the euro but maintains its monetary empire: the pegging of the CFA franc to the euro**

The substitution of the euro for the French franc as the reference currency, on 1 January 1999, was the second major event in the history of the CFA franc<sup>37</sup>. As it happened with the devaluation of 1994, it was intensely decided and managed by the French monetary authorities too.

Since the adoption of the Maastricht Treaty, signed in Paris in 1992, by which Europeans abandoned their national currencies for the euro, the question of the future of the CFA franc was regularly raised by African political and economic leaders in the area (Quentin, 2001). This passage has raised fears from both European and African countries.

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<sup>37</sup> The first was the devaluation of 1994.

Many were the questions posed by the latter: what will happen to the franc zone when the French franc will be substituted by the euro, issued not by the Bank of France but by the European Central Bank (ECB)? Would the European States, which are seeking to endow the Union with a strong and stable currency, accept that the euro becomes the new anchor currency of the CFA and Comorian francs? If so, at what price and on what terms? What could the "unlimited guarantee" of the French Treasury mean, given that the latter would probably not have had any control over the ECB which is legally independent? If the Franc zone would have been maintained, would the exchange rate regime have to be changed? If we had chosen to maintain the fixed parity by anchoring the CFA francs to Europe, is there no risk of devaluation, since the euro would have been possibly a strong currency, even stronger than the dollar? In the hypothesis that the Franc zone was maintained and if it was chosen to anchor the euro without devaluations, did not the African currencies risk, on the contrary, being overvalued? (Diallo, 2002).

These questions were legitimate. In the context of the transition to the euro, the economic and monetary union (EMU) became the sole authority responsible for monetary exchange rate policy. Legally, its members could no longer conclude monetary cooperation agreements or exchange-rate cooperation agreements with third countries<sup>38</sup> (Baudoin, 2006).

But according to France, which intended to retain control of the Franco zone, the agreements with the latter had a budgetary nature, which did not fall within the competence of the EU. Some countries, such as Germany, which were afraid that the anchor might lead to an instability of the euro, did not agree. They considered the CFA part of a monetary and exchange rate agreement, which was therefore the responsibility of the European Community.

Eventually a compromise was found. From a legal point of view, it was accepted that the agreement between France and the countries of the franc zone was budgetary (each country is free to conclude such agreements) and non-monetary. Indeed, the convertibility of the CFA franc is guaranteed by an operating account mechanism opened by the African central banks with the French Treasury. The treasury is the guarantor of this convertibility and not the bank of France. On the other hand, any deficit in the operational account would be covered by the French budget, without any monetary policy implication for the EMU or the European Central Bank<sup>39</sup> (Irving, 1999).

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<sup>38</sup> In the legal language of the European institutions, monetary cooperation agreements are those which allow third countries to use the euro as their official currency, such as the European Union's agreements with the Principality of Monaco, the State of the Vatican and the Republic of San Marino. On the other hand, exchange-rate cooperation agreements refer to the pegging of third-country currencies to the euro (Baudoin, 2006).

<sup>39</sup> The legal basis for the changeover was provided by Article 109 (5) of the Treaty of Maastricht.

It was thus agreed, by the decision of the Council of the Union of 23 November 1998, ratified on 12 January 1999 by the European Parliament, that a decision of the European Council should be necessary only in the event of a change in the nature of the agreements (for example, questioning the convertibility guarantee) or in the case of the entry of a new member.

**Council Decision of 23 November 1998 concerning exchange rate matters relating to the CFA Franc and the Comorian Franc (98/683/EC)**

**Article 2**

*“France and the African signatories to the agreements shall retain sole responsibility for the implementation of these agreements.”*

**Article 4**

*“France may negotiate and conclude modifications to the present agreements to the extent that the nature or scope of the agreements are not changed. It shall inform in advance the Commission, the European Central Bank and the Economic and Financial Committee of such changes”.*

Since 1 January 1999, the date of entry into force of the euro, despite the pegging to the euro, the franc zone continues to operate as in the past (and under the same name), and the European Union is kept regularly informed of the implementation of the agreement (Kern & Mainguy, 2000). The CFA franc zone system, its instruments and its operation all remained unchanged.

The only practical change was the recalculation of the FCFA's peg so that the exchange rate was quoted in euros instead of French francs (Körner, 2002).

The fixed parity between the euro and the CFA franc is based on the official, fixed conversion rate for the euro and the French franc set on 1 January 1999 (EURO 1 = FF 6.55957). As a result, the value of the CFA franc is now fixed against all euro-zone country currencies. Since the FF 1 = FCFA 100 exchange rate has remained unchanged, the euro-CFA franc exchange rate is simply EURO 1 = FCFA 665.957<sup>40</sup> (tab 5.1). (Irving, 1999).

Creation of the CFA	26 December 1945	1 FCFA = 1.70 FF
Devaluation of French franc	17 October 1948	1 FCFA = 2.00 FF
Introduction of new French franc	1 January 1960	1 FCFA = 0.02 FF
Devaluation of CFA	12 January 1994	1 FCFA = 0.01 FF
Securing the CFA to euro	1 January 1999	655.957 FCFA = 1 euro

<sup>40</sup> As regards the Comorian franc (KMF), EURO1 = KMF 491,23.

#### **4.2.1 From the point of view of the Euroland countries**

It is necessary to assess the economic impact of this pegging at two levels: from the point of view of the Euroland countries and from the point of view of the African countries of the franc zone. Starting with the first ones, irrespective of the legal or political issues, it should be noted that the European Union has had and has a clear interest in continuing the CFA agreements:

1. for European exporters and importers, any trade with a country belonging to the franc area is free of exchange rate risk;
2. the countries of the euro area benefit from the enlargement of the currency stability area to 14 African countries and the Comoros;
3. the same applies to European industrialists who wish to invest in these African countries. The principle of free transfer of capital within the area and the alignment of the exchange regulations of the African countries concerned with those in force in Europe, place European industrialists/investors in a largely favourable competitive position. They are able to set up in the franc zone where they are sure to find outlets and raw materials and then freely repatriate the income from their investments or the proceeds of their liquidation without risks (Diallo, 2002).

From these advantages drawn from the Euroland countries, it can be deduced that the initial doubts of some of them on a possible instability of the euro, due to the anchorage with the CFA franc, have disappeared over time.

#### **4.1.2 From the point of view of the franc zone countries**

As regards the franc zone countries, it is difficult to establish an evident interest that they obtain from their pegging to the euro. It is more appropriate to analyse the disadvantages and benefits resulting from it.

*“While it is true that the new European currency aroused so many questions from Africans, it did not inspire them, however, neither distrust nor rejection. On the contrary, the African countries of the franc zone, aware of the intensity and regularity of their trade with the countries of the European Union, are delighted by the prospect of having their currencies attached to the euro, whose strength and prestige were a major respect for the French franc. It is for this reason that France’s participation in the European single currency has been welcomed by African leaders”* (Diallo, 2002, p.7).

The peg of the CFA franc to the euro, in fact, was expected to have certain positive effects on the CFA zone economies. But they are, of course, potential benefits, which come in the form of

opportunities that must be grasped. Overall, the creation of the EMU was supposed to make the euro a stable currency, to lead to low inflation and interest rates and to improve its members' growth rates (Coulibaly, 2014). Consequently, the CFA countries should:

- firstly, benefit from the stability of the euro with the reduction of uncertainty in exchange rate variability, in changes of relative prices, in exports and thus in fluctuations of government revenues expressed in local currency. In this manner, a protection would be created from the fluctuation of the price of commodities (Coulibaly, 2014).
- Secondly, by the effect of a common unit of account and payment, the vast European market becomes more open to the products of the franc zone, which increases its trade opportunities and rationalizes the price of its imports. Thus, trade and transactions would be facilitated.
- Thirdly, the franc zone countries should register higher growth rates due to "hypothetically" strong future growth rates in the EMU because of the important trade between the two areas (Coulibaly, 2014).
- Lastly, pegging to the euro could make the franc zone a preferred destination for FDI (foreign direct investment), compared to other countries in sub-Saharan Africa. Borrowers from the CFA zone could thus increase funds more easily and at cheaper rates upon more competitive financial markets.

However, over the years, given the weakness of the results, the advantages of this change were not sufficient to compensate for its disadvantages, in particular the loss of independence which its operation implied, in certain circumstances, in monetary policy (Kern & Mainguy, 2000).

This was the consequence to the fact that, in accepting the decision to peg the CFA francs to the euro at the fixed parity, French and African leaders did not take into account the fears of many African economists. During a conference organized in Dakar in early November 1998 by CODESRIA (Council for the Development of Research in Social Sciences in Africa), most African researchers rejected the option of a fixed, non-adjustable anchor of CFA francs to the euro (Pigeaud & Sylla, 2019).

According to one of them, Paul-Pacome N'Guindza-Okouyi, such anchoring would have resulted in "*a paradoxical and unsustainable situation in which the African economies were asked to compete with the main European economies*" (Pigeaud & Sylla, 2019, p.132), since monetary policy in African countries would be subject to the decisions of the European Central Bank. Common rules would be applied to economies that did not experience the same level of development, and to states that did not share the same level of resources to function properly. This implies, for example, that the

monetary policy considered valid for Germany becomes such also for Niger, a country included in the franc area that is one of the poorest in the world<sup>41</sup> (Trinchi, 2019).

Researchers also warned that there was a risk of overevaluating the CFA, as the Maastricht Treaty gave priority to stability, and in case of overevaluation the franc zone would result heavily disadvantaged in the global competition. In fact, a strong CFA franc, following the euro, would encourage imports to the detriment of domestic activity, by decreasing the external competitiveness of the area's export products. And this could lead to a trade deficit.

Finally, these African economists pointed out that the choice of a fixed and non-adjustable exchange rate regime meant depriving African countries of the possibility of conducting an autonomous monetary policy. *“The existence of the CFA franc alone for such a large and diverse number of countries, with marked differences in terms of development, was far from optimal. If to it is added the anchor to the euro, the situation could only get worse”* (Fontana, 2019).

Since the end of 1990s, the trade of the CFA members with developed countries, especially European countries, has significantly decreased, confirming their fears.

The fear of the euro's appreciation occurred. Its strong appreciation in the 2000s proved to be detrimental to the economies of the franc zone, especially in terms of competitiveness, probably contributing to the halving of exports in the last twenty years, from the CFA zone to the Eurozone, from 50 to 25%. With the reduction of the trade between CFA countries and Eurozone the benefits in maintaining a stable exchange rate regarding the euro have also faded.

Nevertheless, it must be said that recent empirical studies show that the growth rate in the CFA zone does not differ from that of other countries with a comparable level of development. On the contrary, lower inflation rates and better fiscal discipline are observed, especially vis-à-vis the Sub-Saharan African economies (*graph 5.1*), although this has not significantly contributed to making the area more attractive to foreign investors. This is probably because of the still fragile trade and financial integration of the member States. (Fontana, 2019).

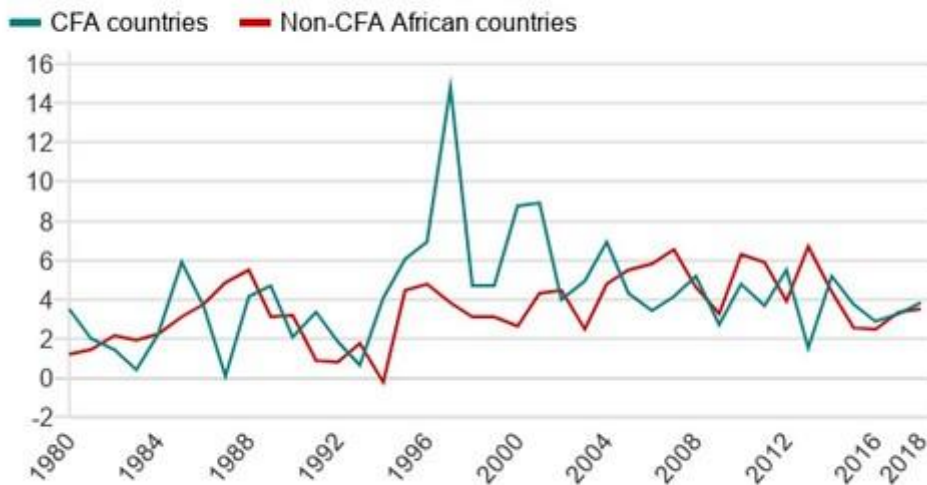
*Graph 5.1*

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<sup>41</sup> In this regard, FCFA member countries are required to respect a public deficit of less than 3% of GDP, as in Germany or France, otherwise they incur sanctions (Viallet, 2018).

## How have CFA franc economies fared compared to the rest of Africa?

(Average GDP growth over time)



Source: IMF

BBC

It is evident that the highest rates of growth were attained in the years following the CFA devaluation of 1994.

In short, it can be deduced that for franc zone countries the most logical choice would have been:

- to introduce more flexibility in the determination of exchange rates to be able to adapt in case of external shocks;
- and to have the power to devalue its currency, that is to sacrifice purchasing power in order to have a lower unemployment rate, and then, once reached a certain stage of development, be more careful to maintain a low inflation rate (Fontana, 2019).

The link between the CFA franc and the euro should have been flexible and therefore adaptable to the circumstances.



## **CHAPTER 5 \_ NOT OPTIMAL, NOT AUTONOMOUS AND NOT DEVELOPED ZONE**

The supposed benefits of franc zone – included, inter alia, low inflation rates, the link between the CFA franc and the euro, the absence of exchange risk between African countries and EU members, and the «guarantee» of convertibility of the CFA franc – were intended to enable African countries to experience high rates of economic growth, attract private investment and make significant progress in the process of sub-regional economic integration. But what about in reality?

While the “stability” of a currency can be a positive factor in the development of economic policies, it has never been a decisive factor in fostering growth or attracting capital (Nubukpo et al., 2016).

This was verified in the case of the CFA franc, which suffers from three major disadvantages:

- It does not reflect the economic fundamentals of the Optimal Currency Area (OCA).
- There is a lack of an autonomous monetary policy aimed at solving the problems of the area.
- It is an obstacle to development.

### **5.1 Economic fundamentals of the Optimal Currency Area (OCA)**

If the 3 blocks (UEMOA, CEMAC, the Comoros archipelago) share the same common currency, the CFA, each one is linked to France under separate agreements. The Comoros, for its part, has its own arrangements with France, its own central bank, and has no institutional links with the two continental monetary unions. The result is a weak coordination of the various components of the franc area, which therefore establishes a common currency with the same value (except for the Comoros), but without unifying monetary policies or allowing serious economic coordination. Consequently, monetary management is conducted separately by each component of the area, with the participation of France. There is no possibility of compensation between the three operational accounts opened with the French Treasury. In these circumstances, the question of whether the franc zone as a whole constitutes an optimal monetary zone is raised (Diallo, 2019).

The concept of a monetary area is not easy to define. Legally, the monetary zone is recognized by the close nature of the relations that it allows to establish between States, defining an area of privileged cooperation, within which transfers are free and a harmonized exchange policy is implemented, often through joint management of foreign exchange reserves. However, the concept remains more familiar to economists than it is to jurists (Diallo, 2019).

From an economic point of view, it can be a meeting of economic spaces which are either subject to a single monetary sovereignty and to a single currency regime or characterized by the existence of a fixed and irrevocable parity structure between their different currencies (Ondo, 1999).

Going into more detail, two advantages are often mentioned when discussing currency unions in general. The first is a decrease in exchange costs, as the costs of trading currencies are eliminated when a single currency is used for all intraregional trade. Additional costs, such as those incurred on futures markets to protect against exchange rate risks, are avoided. The reduction in transaction costs is obviously restricted to transactions within a currency union. As a result, if and when intraregional trade is significant as a percentage of overall trade, the relative profits from lower transaction costs are significant. The benefit is nullified by a weak intraregional trade (Tailor, 2019).

Secondly, exchange rate risks associated with potential foreign currency capital flows are avoided. Future receipts denominated in foreign currencies are likely to lose value in local currency due to exchange rate fluctuations. Since expenditures and earnings from intraregional trade will be kept in the zone's currency, having one nominated coinage for a currency union eliminates this exchange rate danger for intraregional trade. Again, this ostensible benefit of a currency union is made less relevant by low intraregional exchange (Tailor, 2019).

It follows that, in general, a monetary area is said to be optimal when it is characterized by a low degree of asymmetry of shocks suffered by the regions of the area, by sufficient flexibility of the labour market (flexibility in wages and prices), by intra-regional trade and financial flows (economic interdependence) (Hugon, 1999). Then, in an optimal monetary area the benefits of sharing a currency could be higher than costs.

This concept of an optimal currency area (OCA) was first introduced in 1961 by Robert Mundell. Since then, various theories have used various criteria to define the factors on which an optimal monetary zone is based. For Mundell, the forerunner, the mobility of factors of production between economic spaces is the necessary and sufficient condition of an optimal monetary zone (Mundell, 1961). This theory was developed and enriched by the contributions of numerous authors, including the substantial contributions of McKinnon in 1963 and Kenen in 1969. McKinnon's analysis boils down to the idea that a high degree of openness is the fundamental criterion for achieving an optimal monetary zone (McKinnon, 1963). For Kenen, the key element for the definition of an optimal monetary space is the level of diversification of the economy (Kenen, 1969). At the beginning of the 1990s, the theory of optimal monetary areas gained renewed interest with the decision to build an economic and monetary union in Europe. On this occasion, it was developed an approach to examining the benefits and costs of adopting a common currency. According to this theory, countries in the same region have an interest in forming a monetary union rather than having

different currencies, when this integration makes it possible to eliminate both transaction costs (caused by foreign exchange transactions, on the one hand, and the divergence of domestic prices, on the other) and the uncertainty related to exchange instability (Diallo, 2002). Finally, another doctrine on monetary spaces is concerned with the definition of the macroeconomic conditions that the candidate countries for a monetary union must fulfill, such as the similarity of inflation rates, the convergence of economic policies, etc. This approach has the advantage of being more easily applicable and can already benefit from a successful practical experience, particularly in the context of the construction of European Economic and Monetary Union (Diallo, 2002). As regards the specific case of the franc zone, this is far to be an optimal currency area.

When looking at the level of intraregional trade between the two CFA regions, it is clear that neither meets the OCA requirements. CEMAC has the lowest intra-regional trade proportion in Africa, at just 2.1% in 2014, while UEMOA's intra-regional trade has remained stagnant. The East African Community (EAC) and the Southern African Development Community (SADC), on the other hand, do much better; in 2014, SADC had the highest proportion of intra-regional trade (19.3% of total trade), followed by the EAC (18.4%) (see Table 5.1) (Tailor, 2019).

As BNP Paribas notes:

*“The CFA franc zone has not fulfilled all its objectives by a long shot, particularly in terms of regional integration. Trade within the UEMOA barely exceeds 10% of total trade flows, and what is more, this percentage has been relatively stable over the long term. Intra-zone trade within the CEMAC is even smaller”* (Alby, 2018).

**TABLE 5.1**

Intra-regional trade in Africa's regional economic communities as a percentage of total trade.

	2000	2010	2014
CEMAC	1.19	2.74	2.08
COMESA	4.82	7.36	11.00
EAC	17.73	18.65	18.37
ECOWAS	8.91	8.27	8.92
SADC	11.73	18.18	19.34
UEMOA	15.24	15.24	15.30

CEMAC: *Communauté Economique et Monétaire de l'Afrique Centrale*; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; ECOWAS: Economic Community of West African States; SADC: Southern African Development Community; UEMOA: *Union Economique et Monétaire Ouest Africaine*.

Source: African Development Bank, 2016

### 5.1.1 Trade between franc zone countries

Going more in detail about the intraregional trade, according to the defenders of the CFA franc, the CFA system would «deepen regional integration». It would then have helped the African countries in the franc zone to get closer to each other and form a free trade area that would have favored trade.

The foreign trade of African countries has certainly seen some changes: it was "Europeanised" between 1960 and 2000, a phase during which the weight of France has tended to decrease in favor of other European countries, and from 2000 onwards it has gradually reoriented towards China and the African continent (to the countries out of the franc zone). But this has not changed the model of vertical economic integration inherited from colonization. More than seventy years after the invention of the CFA franc, African countries remain producers of unprocessed raw materials and trade more with Europe than with each other. The area of the franc remains a "primary association", that is an area that brings together underdeveloped countries around a single economically developed country, according to an old theory of the 1980s, the New Dependency Theory<sup>42</sup> (Nubukpo & al., 2016). Available statistics show that trade between franc zone is rather low: it accounts for less than 15% of trade, compared to 60% in the euro area (Maury & Boris, 2015).

Intra-regional trade in CEMAC accounted for less than 4 % of total trade in 2016. That same year, the trade of the EUMOA countries with the European Union (32.8%) was more than twice that of the countries in the area (15.2%) (see Table 5.2).

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<sup>42</sup> Dos Santos (1980) defined the New Dependency Theory as a situation in which the development and expansion of one economy is influenced by the development and expansion of another economy to which the former is subjected. When some countries – the dominant ones – benefit significantly while dependant countries remain underdeveloped, the relationship of interdependence between two or more economies, and between these and the rest of the world, becomes a relationship of dependency. (Dos Santos, 1980). (Nubukpo & al., 2016)

**TABLE 5.2**

**COMMERCE INTRA-ZONE  
PAR RAPPORT AU COMMERCE TOTAL (EN %)**

	2010		2011		2012		2013	
	Export	Import	Export	Import	Export	Import	Export	Import
CEMAC	2,69	4,99	1,95	4,10	2,19	5,19	1,93	3,37
UEMOA	12,98	9,65	10,78	9,49	13,77	10,07	14,73	9,04

*Source: UNCTAD (2010-2013)<sup>43</sup>*

But, why is trade between the franc zone countries weak?

Since the CFA franc pegged to the Euro is a strong currency, it penalizes exports as it becomes more profitable to import manufactured goods from Asia (mainly China), Europe or Nigeria than to produce them locally (Bennani, 2019).

For example, concerning the UEMOA, to the extent that the economies of the member states maintain a primary insertion in international trade, they are more substitutable than complementary vis-à-vis each other.

The typical example is cotton, where 97% of the fiber obtained from the ginning process is exported without further processing (no country has developed its textile industry) (Nubukpo & al., 2016). At the same time, six of the eight member States (Benin, Burkina Faso, Cote d'Ivoire, Mali, Senegal and Togo) are scarce of foreign exchange to enable them to finance their imports of goods and services. In reality, the extraversion of the economies of the UEMOA makes the fact of sharing the same currency almost without interest.

This constant is stated by the former President-Delegate of the Economic Analysis Council of the French Government. Christian de Boissieu, who believes that the monetary stability organized within the framework of the franc zone has not really had significant consequences on the growth of intra-African trade. So, the real effects of monetary stability have been limited (Nubukpo & al., 2016).

It is clear that with the franc zone it was done the opposite of what was done in Europe. In Europe, the UE started with the real economy integration and the single currency was the crowning achievement. In Africa the opposite was done, the franc zone started with monetary cooperation and eventually economic integration was expected. So, it was a reverse transition. (Nubukpo & al., 2016).

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<sup>43</sup> The table shows that CEMAC countries have a constant overall surplus (as oil producers), while UEMOA countries have a growing external deficit

As the CEMAC is concerned, its situation is worse than UEMOA as the member countries are all oil producers with the exception of the Central African Republic, so the same model of the cotton trade can be applied<sup>44</sup>.

To confirm this theory, look at Table 5.3. It compares the CFA zone's Concentration Index and Diversification Index to those of other African regions. The Concentration Index (also known as the Herfindahl-Hirschmann Index) is a measure of the degree of product concentration. The methodology obtains data values ranging from 0 to 1: an index value closer to 1 indicates that a country's trade is highly concentrated on a few products. The Diversification Index measures how much a country's trade system differs from the global structure. A value closer to 1 denotes greater divergence from the average world pattern.

**TABLE 5.3**

Concentration and diversification indices.

Region	1995		2000		2005		2010		2015	
	CI	DI	CI	DI	CI	DI	CI	DI	CI	DI
CEMAC	0.5	0.8	0.6	0.8	0.8	0.8	0.7	0.8	0.6	0.8
UEMOA	0.2	0.8	0.2	0.8	0.2	0.7	0.2	0.7	0.3	0.7
COMESA	0.3	0.7	0.4	0.7	0.4	0.6	0.4	0.6	0.2	0.5
EAC	0.3	0.7	0.2	0.7	0.2	0.7	0.1	0.7	0.1	0.6
SADC	0.1	0.5	0.2	0.5	0.2	0.6	0.3	0.5	0.2	0.5

CEMAC: *Communauté Economique et Monétaire de l'Afrique Centrale*; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; SADC: Southern African Development Community; UEMOA: *Union Economique et Monétaire Ouest Africaine*.

Source: UNCTADSTAT (1995-2015)

<sup>44</sup> François J. Gurtner made a comparison of the degree of approximation to the optimum of two monetary unions, the UEMOA and the CEMAC. The central question he asked was: “Does the West African Monetary Union fulfil the various criteria of an Optimum Currency Area more adequately than its counterpart in Central Africa. In other words, can these two zones be differentiated, or should they be considered completely identical?” (Gurtner, 1999).

After having applied the different criteria of the theory of optimal currency area to the franc zone, the author comes to the following conclusion: “One striking finding is that the currency border splitting the CFA Franc zone into two distinct zones appears to be largely artificial from the economic point of view. According to the results of this article, it is obvious that the necessary criteria for an OCA (Optimum Currency Area) are fulfilled slightly better by the West African CFA Franc zone. However, this does not automatically imply a homogeneity in this CFA Franc zone but rather that the Central African CFA Franc zone contains major oil-exporting countries with an independent fluctuations of primary goods such as cocoa, coffee, cotton or copper. This bias tends to make the Central African CFA zone much more heterogeneous than its Western counterpart in which no major oil producer has so far been identified” (Gurtner, 1999).

When compared to other regional blocs in Africa, the above data shows that both CFA zones substantially diverge from the world trade composition, while the Concentration Index for UEMOA is low, and for CEMAC is especially high (Tailor, 2019).

Only upward movements in the value chains will allow the economies of the franc zone to exchange goods and services sufficiently diversified to generate an increase in the share of intra-Community trade.

The lack of diversification, however, is not the only reason for the weakness of trade between the countries of the franc zone. There are other several explanations for the limited amount of measured intraregional exchange. First, since incomes are very low throughout the region, there is only a small internal market for the tradable products that these countries produce. A fortiori, there is only limited potential for production specialization within the region. Second, the region's transportation and communication networks are limited, particularly given the long distances involved. Third, many countries apply a degree of protection of domestic producers. In most instances, imports from countries in the same region (west or central) are excluded from restrictions, but imports from countries in the other region in the zone may not be (Boughton, 1991). And so on.

### **5.1.2 The CFA zone fulfils all of the disadvantages of currency unions**

What explained above directly contradicts the Bank of France's official view, which incorrectly argues that the monetary union has strengthened regional solidarity (Tailor, 2019).

Given that the two zones clearly do not meet the notional requirements that could lead to an optimal currency union usage, it would be appropriate to then discuss some of the currency unions disadvantages. Unfortunately, the CFA zone fulfils all of them. Firstly, currency unions eliminate the possibility of member states to use exchange rate adjustments as a policy mechanism within the region. Members cannot adjust the nominal exchange rate, which could cause issues with the balance of payments. In "normal" economies (non-currency unions), the real exchange rate is influenced by wages and prices fluctuations, as well as labour productivity. In a currency union such as CFA, this is not possible. Secondly, in currency unions, monetary policy is centralized, and state-level monetary policy is not feasible. It has been shown that if countries are faced with identical shocks, they require different policy responses to these shocks due to the variations in their economic positions (Mélitz, 1991). Even this solution is not possible in the CFA zone as monetary policy is in any case de facto controlled by the former colonial power, with a different key rate for the BCEAO (2.5%) and BEAC (3.5%). Thirdly, a monetary union necessitates the harmonisation of inflation rates as real costs rise within members' states. Increases in remunerations compared to labour productivity in a member country will likely increase unemployment and trigger factor shifts to higher productivity

economies inside the bloc. Because of the fiscal and monetary discipline imposed on the CFA region, member countries' expenditure on social provisions has been restricted. The economist Agbohohou is then right when he says that "*monetary bondage leads to subjugation and underdevelopment*" (Agbohohou, 2015).

Equally, significant income inequalities between member states of a union are problematic. An examination of the per capita income of the member states within the two CFA zones shows that this is indeed the case (see Table 5.4). In the scenario depicted above, monetary integration encourages regional imbalances and intensifies inequalities within zones. This will then likely stimulate migration within such unions to economies with higher per capita income and more job opportunities, potentially escalating societal tensions. The history of Côte d'Ivoire is a clear example of this trend. (Tailor, 2019)

Only when intraregional trade is relatively high does the compensations of monetary unions, such as those found in the CFA zone, become important. This is not the case in either CFA zones (Couharde et al., 2013). Even according to the EU, taking the literature on the optimal currency area (OCA) as a reference, the CFA franc zone countries will hardly qualify for an OCA given their low product diversification (Hallet, 2018).

**TABLE 5.4**

Per capita income, 2014 (in US\$).

UEMOA country	Per capita income	CEMAC country	Per capita income
Benin	900	Cameroon	1350
Burkina Faso	680	CAR	320
Côte d'Ivoire	1450	Chad	980
Guinea-Bissau	590	Congo-B	2720
Mali	790	Equatorial Guinea	16028
Niger	420	Gabon	10410
Senegal	1020		
Togo	550		

CAR: Central African Republic; Congo-B: Congo-Brazzaville.

Source: World Bank, "Poverty and Equity Data"

## 5.2 Lack of an autonomous monetary policy

In addition to not reflecting the characteristics of an optimal currency area, the CFA system inflicts "*four major handicaps*" on its member countries, as explained by Piegaud and Sylla (2019). The first two handicaps are the fixed exchange rate and the anchoring of FCFA to the euro. As is well



known, a nation which anchors its currency with another cannot have an own autonomous monetary policy (Fazi, 2019). UEMOA and CEMAC, two currency unions composed mainly of poor countries, are in reality subordinate to the monetary policy of a third currency union, the euro area, which brings together “rich” countries with different priorities and needs (Fazi, 2019). The consequences of this were well explained by Nobel Prize winner for Economics Robert Mundell in 1997: *“If a small country (such as Senegal) unilaterally fixes its currency for a larger country (such as France), it is in fact transferring its sovereignty in terms of economic policy to the latter. The first one loses its sovereignty because it no longer controls its monetary destiny; the larger country, on the other hand, gains sovereignty because it manages a larger currency area and gains greater “weight” in the international monetary system”* (Mundell, 1997).

Moreover, the fixed exchange rate implies that the 15 Member States of the franc zone, taken individually, do not have the option of using the exchange rate to cushion the shocks affecting the economy or to improve the price competitiveness of local goods. And this in a continent where shocks - political (coups d’états, conflicts, social tensions etc.), climate (droughts, floods etc.) and economic (volatility of commodity prices, foreign debt interest rates, capital flows, etc.) - are common (Edwards & Yeyati, 2005). *“In the absence of budget transfers, for dealing with adverse shocks, therefore, the countries of the franc zone have only one option: the “internal devaluation”, an adjustment of domestic prices that passes through a decrease in labor income and public expenditure, a rise in taxes and finally a drop in economic activity”* (Sylla, 2020).

The same IMF statistics prove that the fixed exchange rate has been a disastrous choice for African countries: since 2000, sub-Saharan African countries operating under a fixed exchange rate regime have experienced economic growth ranging from 1 to 2 points lower than countries using a flexible exchange rate. This difference is due in particular to *“the lower growth of the member countries of the franc zone”*, says the International Monetary Fund (FMI, 2016).

Assuming that the choice of fixed exchange rates is justified in the case of monetary unions in the franc area, the anchoring of the euro is problematic. In the franc area, the pegging to the euro, a strong currency, has penalized the price competitiveness of raw materials on the international market, through structurally overvalued exchange rates. An overvalued currency (the FCFA)<sup>45</sup>, in a weak economy, acts as an export tax and an import subsidy, deteriorating the trade balance (Nubupko, 2015).

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<sup>45</sup> Analyzing the effective exchange rate indicator, some economists came to the conclusion that the CFA franc is overvalued by 10% (Nubupko, 2015).

The cotton market is a good example to better explain the facts. In Burkina Faso, while cotton production increased six times between 1994 and 2006, the strong appreciation of the euro between 2004 and 2007, in a context of falling prices, was catastrophic. With a parity of USD 1.2 for EUR 1, the cotton firms and farmers of Burkina Faso would be able to meet the costs. But during that time, as the euro was traded at \$1.3, they suffered heavy losses (Pigeaud & Sylla, 2019).

The anchoring to the euro is equally destabilizing for food products destined for local consumption: it discourages local production and makes it more expensive than imported products<sup>46</sup>. The problem has arisen, for example, in the rice sector in Senegal, as the economist Mamadou Ndong explained. Over the period 2000-2009, the appreciation of the euro of 50% against the dollar has made local rice 50% more expensive than Thai rice that is priced in dollars. As a result, there was an increase in imports of Thai rice and a decrease in consumption of local rice (Pigeaud & Sylla, 2019).

From these first two handicaps comes the third handicap of the franc zone: the underfinancing of the economies of the franc zone. In order to avoid a lasting fall in the level of their foreign assets, which would jeopardize the fixed parity, the central banks of the franc area must, in fact, limit domestic credit growth (the volume of bank loans made available to governments, businesses and households). Moreover, since 1999, the countries of the franc zone have been subject to the same budgetary constraints as the countries of the eurozone in terms of deficits and public debt, as well as, of course, the prohibition of monetary financing of the states.

*«The CFA franc plays only a stabilizing role and plays no active role in the economy»*, noted economist Makhtar Diouf in 2002 (Diouf, 2002). One of the consequences is that African countries must turn abroad - often to France itself - if they want to finance their own development by borrowing in foreign currency at very high rates.

This weak financing of the economies clearly penalizes the economic growth, which also economists who favor the CFA franc admit as Sylviane Guillaumont Jeanneney: *“The weak growth of the UEMOA is partly explained by a lower rate of investment than in other regions of Africa. This low investment rate has been accompanied by a chronic over-liquidity of commercial banks and since the 1994 devaluation of a considerable stock of BCEAO’s external reserves. Low investment is partly due to low public investment in infrastructure, education and health”* (Guillaumont Jeanneney, 2006).

Senegalese economist Demba Moussa Dembélé, a critic of the CFA system, is more severe. *“Due to the fixed parity and restrictive policy of the central banks (BCEAO and CEMAC)”*, he explains, *“we are subject to the imperatives of the European Central Bank, which is concentrated on*

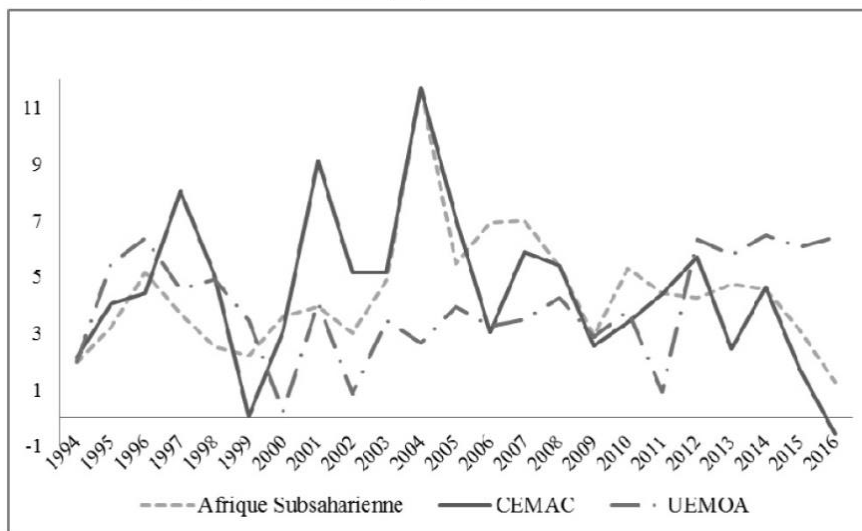
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<sup>46</sup> The discouragement of local production means that franc zone countries do not carry out a process of industrialization, focusing exclusively on the primary sector.

*fiscal discipline and the fight against inflation*" (Dembele, 2010)<sup>47</sup>. In fact, the monetary policies of African central banks are disconnected from the economic and social realities of member countries (for which the priorities should be employment, investment in productive capacity, infrastructure creation) because, as said before, they are modelled on those of the ECB, and its monetarist credo. Such policies tend to slow growth and discourage investment. In fact, the comparison with countries with their own currencies and high inflation rates (see graphic 5.1) shows that these have comparable or higher growth rates, as shown in Table 5, (Nubukpo et al., 2016) and the graphic 5.2.

### GRAPHIC 5.1

*Taux de croissance du PIB dans les Unions de la Zone franc comparés à ceux de l'Afrique subsaharienne*



Source: World Bank, WDI 2018

### TABLE 5.5

<sup>47</sup> BCEAO and CEMAC opted for an inflation target of 2% as the main monetary policy objective of the UEMOA and CEMAC respectively. Such a choice comes from the link between the CFA franc and the euro, since this target is the one chosen by the European Central Bank (ECB). According to Article 8 of the BCEAO Statute, "The main objective of the monetary policy of the Central Bank is to ensure price stability [...]". Surprisingly, the two central banks care so little about economic growth and development.

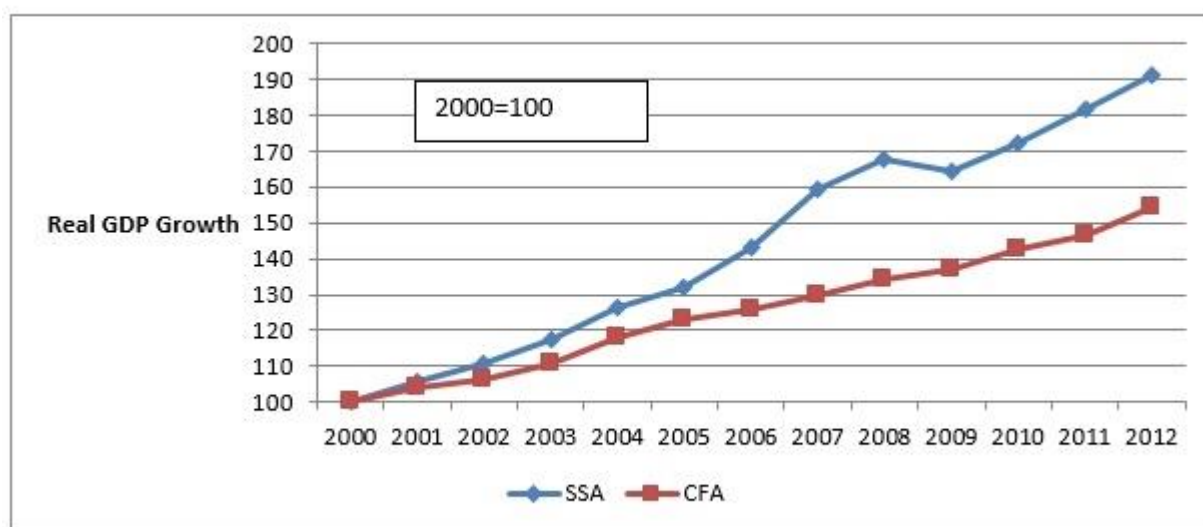
**TAUX DE CROISSANCE (%) COMPARÉS  
ENTRE PAYS CFA ET NON CFA**

Pays	Moyenne 1997-2006	2009	2010	2011	2012	2013	2014
Angola	8,8	2,4	3,4	3,9	5,2	6,8	4,8
Cameroun	4,0	1,9	3,3	4,1	4,6	5,6	5,7
Congo	3,4	7,5	8,7	3,4	3,3	3,8	6,8
Côte d'Ivoire	1,1	3,3	2,0	-4,4	8,1	7,9	8,2
Ghana	5,1	5,8	7,9	14,0	7,0	8,0	4,0
Mozambique	8,5	6,5	7,1	7,4	7,1	7,4	7,4
Nigeria	7,2	9,0	8,0	4,9	4,3	5,4	6,3
Sénégal	4,4	2,4	4,2	1,8	4,4	3,6	4,7
Afrique	5,0	4,1	6,6	5,0	4,3	5,2	5,0

Source: FMI, *World Economy Perspectives*, 2015

**GRAPHIC 5.2**

**Real GDP Growth in CFA and Sub-Saharan Africa 2000-12**



Source : Penn World, IMF

Togolese economist Kako Nubukpo shares this view. He states that: “*There can be no development without credit, and higher inflation would encourage investment. There is a contradiction between the development issue, which requires significant funding, and the CFA franc system. Our monetary policies do not take into account the objective of growth*” (Pigeaud, 2016). This extremely restrictive policy is often justified by the fact that the creation of money in poor countries that import almost everything from abroad risks depleting their foreign reserves and thus further reducing the value of their currencies. But the reality, note Pigeaud and Sylla (2019), is that many African countries import large quantities of food that they could produce locally. What is lacking, most of the time, is the financial means to develop their agricultural systems and trade

protection against imports. In this sense, if African countries were to finance the development of their agriculture, they would not reduce their currency reserves, but, on the contrary, they would save money. Unfortunately, the CFA system prevents any policy of mobilizing internal resources. Finally, the last handicap: the freedom of movement of capital. According to Pigeaud and Sylla (2019), this is a factor that significantly impedes the development of the countries concerned, often resulting in a financial bleeding. When fundamental economic sectors are controlled by foreign capital, as is the case in most countries of the franc zone, the free movement of capital acts as a mechanism for draining African resources to the rest of the world<sup>48</sup>. This phenomenon can be observed especially in the countries with abundant natural resources, such as Cote d'Ivoire, Cameroon, Congo, Gabon and Equatorial Guinea. Suffice it to say that between 2000 and 2009 net income transfers to the rest of the world - including profits and dividends from multinationals operating in those countries - amounted to approximately 30% of GDP for the Congo and 43% of GDP for Equatorial Guinea (Pigeaud & Sylla, 2019).

All these handicaps associated with the CFA franc system are not new, they were identified early on by African political leaders like Mobito Keita, Mali's first post-independence president and by economists like the Senegalese Mamadou Diarra, Cameroonian Joseph Tchundjang Pouemi and Franco-Egyptian Samir Amin (author of Imperialism and Unequal Development (Amin, 1976)). But France, which is allied with generally loyal African heads of state—has never wanted to accept the African demands for monetary independence (Sylla, 2020).

### 5.3 Obstacle to development

*“It is apparent that the CFA acts as mechanism that promotes inertia and underdevelopment among its member states”* claims the International Relations' professor Ian Taylor (Taylor, 2019, p. 1074).

According to its supporters, the CFA franc would be a useful tool for the development of countries that use it. *«The past fifty years have shown that the franc zone is a factor conducive to development»*, the Governor of the Bank of France, Christian Noyer, said in 2012 (Pigeaud & Sylla, 2019, p.171). The recent performance of a country such as Côte d'Ivoire, which recorded an average annual growth rate of real GDP per capita of 6.4% between 2011 and 2016, may indeed suggest that this is the case. However, during the same period, several countries in the franc zone, including

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<sup>48</sup> We will talk about this in the next chapter.

Equatorial Guinea (-6.8%), the Central African Republic (-6.6%) and Chad (-0.2%), recorded much less brilliant results<sup>49</sup>.

In order to have an accurate picture of the situation, going beyond the cyclical data, it is necessary to look at the long-term evolution of the average annual growth rate of real GDP per capita. From this point of view, the performance of the franc zone countries since independence to date is very disappointing. When a country has an average annual growth of 1% of its real GDP per capita, it means that this doubles every seventy years. Throughout the period 1960-2016, however, even this aim remained outside the major economies of the area: Cote d'Ivoire (0.45 percent), Cameroon (0.8 percent) and Senegal (0.02 percent). Only five of the fifteen African countries in the area have achieved a growth rate above 1 percent: Mali (2 percent between 1984 and 2016), Burkina Faso (1.84 percent) and three oil exporting countries, Equatorial Guinea (10.3 percent between 1985 and 2016), Gabon (1.41 percent) and Congo (1.21 percent).

An analysis of long-term statistics shows, therefore, that while Côte d'Ivoire has achieved noteworthy results in recent years, its real GDP per capita or "average income" for simplicity, in 2016, was more than a third lower than the one recorded in the late 1970s. The same is true of Senegal, which has also achieved good results in recent years: its current average income is equal to that of 1960. These two states, therefore, are not "catching up" with other so-called emerging countries, but rather are recovering their levels of economic activity of the past. More generally, ten countries in the franc zone recorded the highest level of their average income before the 2000s. In Gabon, for example, the highest average income was recorded in 1976: just under 20,000 dollars. Forty years later, it fell by a half. In the last forty years, the average purchasing power has deteriorated almost everywhere. Guinea-Bissau is another significant case. It joined the UEMOA in 1997, the year corresponding to the peak of its average income. Nineteen years later, its average income decreased by 20 percent (Pigeaud & Sylla, 2019).

### **5.3.1 Economic backwardness**

Because of the handicaps and difficulties outlined above, after seven decades of monetary experience and more than half a century of political independence, the countries that use the CFA franc are still among the world's weakest economies (Cissé, 2019). With a few exceptions, they are

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<sup>49</sup> Growth statistics are derived from the World Bank's development indicators (2018).

all on the unsavory short-list of “Less Developed Countries”<sup>50</sup> (LDCs) and “Heavily Indebted Poor Countries” (HIPC).

Of the 46 LDCs surveyed by the UN in 2020, 33 are African, of which 9 are from the franc zone. Apart from Côte d'Ivoire in UEMOA and Cameroon, Congo, Gabon and Equatorial Guinea in Central Africa, all countries in the franc zone are on this «red list»<sup>51</sup>. In short, 1 out of 5 LDCs in the world is located in the franc zone. And that is not all. All countries in the franc zone, with the exception of Gabon and Equatorial Guinea, are included in the Heavily Indebted Poor Countries (HIPC) group, an initiative of the IMF and the World Bank. Of the 39 countries eligible for the HIPC initiative in 2020, three quarters were located in sub-Saharan Africa, including all countries in the UEMOA area. In reality, the so-called “less developed” or “highly indebted” countries from the franc zone are not so extremely poor as their categorization might suggest. They are full of exceptional agricultural and mining resources, and very often poorly exploited or underexploited.

According to the Human Development Index (HDI, 2015) developed by the United Nations Development Program (UNDP) and based on per capita gross national income, life expectancy at birth and level of education, 6 of the 10 poorest countries in the world are in the franc zone. These are Guinea-Bissau (178th), Mali (179th), Burkina Faso (183th), Chad (185th), the Central African Republic (187th) and Niger (188th/188th countries). This includes the world’s two poorest countries, Niger and the Central African Republic, where 63% of the population lives on less than \$1.25 a day. Five years later, the latest UNDP ranking (IDH, 2020) does not change the situation. On the contrary, the situation is getting worse. Among the 8 poorest countries in the world in 2020, 5 are located in the franc zone. Here is the list of these countries: Mali (184th), Burkina Faso (182th), Chad (187th), Central African Republic (188th) and Niger (189th/189th countries in the world). Côte d’Ivoire, the UEMOA locomotive, is ranked 162th in the lowest of categories, as are all other countries in the sub-region (see Table 5.6).

In terms of governance, the franc zone concentrated 4 of the 20 most corrupt countries in the world in Transparency International’s 2016 ranking: the Central African Republic (159th), the Congo (159th), Chad (159th) and Guinea-Bissau (168th/176 countries). The 2020 report of the German NGO confirms the same trend. Here too, UEMOA and CEMAC are located in the depths of the world ranking, with a special mention to Central Africa. Five of the six CEMAC countries are among the

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<sup>50</sup> LDCs are countries whose population is, in principle, less than 75 million inhabitants, which have a low per capita gross national income, a low level of human development and a high economic vulnerability (UNCTAD, 2018).

<sup>51</sup> Benin, Burkina Faso, Mali, Niger and Chad have been part of this since 1971, when this categorization was created. They were subsequently joined by the Central African Republic (1975), the Comoros (1977), Guinea-Bissau (1981), Togo (1982) and Equatorial Guinea (1982). Senegal joined the group in 2000 (UNCTAD, 2018).

most corrupt in the franc zone: Central African Republic (146th), Cameroon (149th), Chad (160th), Congo (165th), Equatorial Guinea (174<sup>th</sup>/179th countries in the world) (see Table 5.6).

**TABLE 5.6**

**RANKING OF THE HUMAN DEVELOPMENT INDEX (2020)  
AND THE CURRUPTION PERCEPTIONS INDEX (2020)**

	Human Development Index (Rank / 189 countries) UNDP 2020		Curruption Perceptions Index (Rank/179 pays) Transparency Int. 2020
	RANK	STATUS	
<b>UEMOA</b>			
Benin	158	LDC	83
Burkina Faso	182	LDC	86
Cote d'Ivoire	162		104
Guinea-Bissau	175	LDC	165
Mali	184	LDC	129
Niger	189	LDC	123
Senegal	168	LDC	67
Togo	167	LDC	134
<b>CEMAC</b>			
Cameroon	153		149
Central African Republic	188	LDC	146
Chad	187	LDC	160
Congo	149		165
Equatorial Guinea	145		174
Gabon	119		129
Comoros	156		160
<b>Others</b>			
Ghana	138		75
Nigeria	161		149
Morocco	121		86
France	26		69
South Korea	23		33

Source: UNDP, Human Development Index Ranking, 2020

### 5.3.2 Indicators of non-development

“Given their enormous human, agricultural and mining resources, it is safe to say and write that the African countries in the franc zone have turned their backs on development” (Cissé, 2019). In fact, apart from two countries (Cameroon and Gabon) located in the CEMAC, at least one third of the populations of the Member States of the franc zone live below the poverty line. In UEMOA, this extreme poverty affects more than half of the inhabitants of Benin, Mali, Togo and to a lesser extent Guinea-Bissau. “Very high income inequalities are the breeding ground for high social tensions and



*extremist positions*” (Cissé, 2019). Access to primary needs such as drinking water, electricity, health, school, transport and food is almost a luxury for many citizens, victims of weak, incoherent, unambiguous and underfunded public policies. As a corollary to these difficult living conditions, life expectancy at birth in this part of Africa is one of the lowest on the planet. None of the 15 Member States of the franc zone is close to the world average (72 years). Some countries, such as the Central African Republic and Chad, have life expectancy at the level of France at the beginning of the last century (50.45 years in 1913) (see Table 5.7).

**TABLE 5.7**

<b>ZONE FRANC : INDICATEURS DE NON-DEVELOPPEMENT</b>					
	Espérance de vie (en années)	Population en deçà du seuil de pauvreté	Inégalités de revenus (indice Gini)	Accès à l'eau potable	Accès à l'électricité
<b>UEMOA</b>					
Bénin	59,6	51,6%	43,5	77,9%	38,4%
Burkina Faso	58,7	44,5%	39,8	82,3%	13,1%
Côte d'Ivoire	51,5	35,0%	43,2	81,9%	55,8%
Guinée-Bissau	55,2	48,9%	35,5	79,3%	60,6%
Mali	58,0	50,6%	33,0	77,0%	25,6%
Niger	61,4	40,8%	31,2	58,2%	14,4%
Sénégal	66,5	34,1%	40,3	78,5%	56,5%
Togo	59,7	52,5%	46,0	63,1%	31,5%
<b>CEMAC</b>					
Cameroun	55,5	27,6%	40,7	75,6%	53,7%
Centrafrique	50,7	62,8%	56,3	68,5%	10,8%
Congo	62,3	32,8%	40,2	76,5%	41,6%
Gabon	64,4	6,1%	42,2	93,2%	89,3%
Guinée Equatoriale	57,6	nd	nd	47,9%	66,0%
Tchad	51,6	36,5%	43,3	50,8%	6,4%
<b>Autres</b>					
Comores	63,3	46,1%	nd	90,1%	69,3%
<b>Comparaison internationale</b>					
Maroc	74,0	15,0%	40,7	85,0%	91,6%
France	82,4	8,0%	33,1	100,0%	100,0%
Corée du sud	82,2	4,0%	32,0	100,0%	100,0%
Afrique subsaharienne	59,0	35,2%	nd	68,0%	37,5%
Monde	72,0	10,7%	nd	91,0%	85,3%

Source: UNDP, *Human Development Index Ranking, 2020*

The CFA franc (and its container, the franc zone) remains a small currency on an international scale, supported by small African economies. The economic size of the franc zone is too small to constitute a world-wide market. The 15 African countries combined in this Community area have a total population of 164 million, according to the report of the Bank of France; less than that of Nigeria (182 million). In 2015, they had a cumulative GDP (\$166 billion) lower than the turnover achieved by the Korean company Samsung alone (\$177 billion in the same year) (see Table 5.7). The output

of the African countries in the franc zone is only slightly more than 12% of that of South Korea, a much smaller country. In other words, a South Korean produces 27 times more than a national of the franc zone.

However, not so long ago, several African countries beat South Korea. “*In the 1960s, Koreans were so poor that they had to sell their hair,*” reports the weekly *Jeune Afrique*. Today, the Asian giant produces the equivalent of half of the production of the entire African continent. It is the world’s 11th largest economy. As an illustration, Côte d'Ivoire (the largest economy in the UEMOA zone) had at its independence (in 1960) a GDP per capita of 1,205 dollars against 944 dollars for South Korea at the same period. It was not until 1972 that the “Asian dragon” broke away with a per capita GDP of \$2,067 compared to \$1,967 for the “African elephant”. And since then, the gap has been widening, to the point that today any comparison between the two countries seems inappropriate because it is of little interest. In 2016, the average income of South Koreans (\$25,459 per year) is 16 times higher than that of Ivorians (\$1,563 per year), whose standard of living has deteriorated significantly over the past four decades.

But how did South Korea, which had the same life expectancy at birth as many African countries (53 years old in 1960), achieve and exceed in less than half a century the economic status of the old Western nations? South Korea owes this economic boom to many reasons, among others thanks to the monetary policies adopted since 1960 under the dictatorship of Park Chung Hee.

Unlike the Head of States of the franc zone countries, which inherited a culture of dependency from colonialism, South Korea’s first goal was to build a self-sufficient industrial economy independent of the huge United States aids that had held South Korea afloat during the Rhee years. The main issue that the Park regime had to face in the early 1960s was the extreme poverty of the country and the need for economic policies to reduce this poverty. Park aimed to turn South Korea from a backward agricultural country into a prosperous industrial nation that could offer its people a reasonable standard of living (Country reports, 1990).

The Park administration determined that the economic development would be led by the central government. It arranged a highly centralized government with economic control. The government took control of foreign borrowing and of all forms of institutional credit, and nationalized all banks. In this way Park got great control over the business community. He used the control of credit, informal means of coercion and persuasion, and traditional monetary and fiscal policies to “guide private industry through a series of export and production targets” (Country reports, DATA?). Because South Korea was dependent on raw material imports, such as oil, one of the government's main goals was to greatly increase exports, which meant focusing on increased international competitiveness and productivity (Country reports, 1990).

The early economic plans prioritized agriculture and infrastructure, the latter were closely linked to construction. Later, the emphasis turned to light industry, electronics, and heavy and chemical industries. An export-driven economy arose as a result of these strategies.

The government worked hard to develop good conditions for its export. *“Incentives for exports included tariff exemptions for raw materials imported for export production, a reduction of corporate and private income taxes for exporters, business tax exemptions, and accelerated depreciation allowances”* (Country reports, 1990).

Thanks to the export-led program, during the 1970s, Seoul had the world's most productive economy. The annual industrial production growth rate was about 25%, and the GNP increased fivefold between 1965 and 1978. Exports increased by 45% a year on average in the mid-1970s<sup>52</sup> (Country reports, 1990).

Coming back to the franc zone, it is not wrong to say that member states are rich but poor. But, what is the point of dying rich if you have to live poor?

From west to center, life is difficult. In most rural and desert areas, African populations, faced with the pallor of daily life, lack everything, and even the essential. The State, through public administration and basic social services, is practically non-existent in some localities. People are self-administered, often with financial generosity from uncontrolled sources. Central power is concentrated in the capital and in some major cities. In thousands of villages, an elderly person can leave this world without ever having access, once, to electricity and drinking water. Yet, the African countries of the franc zone are full of abundant water resources, vast farmland and exceptional mineral potential. Honestly, what is the point of holding huge amounts of gold and hard currency reserves in industrialized countries (which have already completed their development cycle) when local economies, underfunded, have not even begun to take-off? These questions may seem stupid in light of their obvious answer; however, this is the reality (Cissé, 2019).

Obviously, all the economic and social ills of the African countries in the franc zone cannot be attributed solely to the monetary system. Although the currency in its seventies has its share of responsibility in the current situation of the area, this responsibility must be assumed by those who manage it and ensure its convertibility. The system certainly has many disadvantages; it nevertheless has some advantages (as explained in the previous chapters).

What can be said, therefore, of the bad governance in Africa, of corruption, of laxity, of the disregard for the public good, of the lack of civic spirit, of the erosion of moral and societal values,

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<sup>52</sup> For more information about Korean economic and monetary policies refer to <http://countrystudies.us/south-korea/45.htm>

of the deficit of democracy, of the absence of a real and long vision, of the inconsistency and ineffectiveness of austere and restrictive public policies? (Cissé, 2019).

To believe, for a single moment, that a change of currency will be the miracle solution to the many problems that beset the franc zone would be a sham, a hard-to-hold and sustainable thesis. The CFA franc is certainly part of the problem, but it is neither the sole nor the main cause of the socio-economic breakdown of the CEMAC and UEMOA countries.

*“Revisiting, reviewing and eventually revising the cooperation agreements signed on the eve of independence between France and its former African colonies is an important first step toward untying the yoke that impedes economic growth and development in the region”* (Molua, 2015).

## CHAPTER 6 \_ FIGHTS AGAINST THE FRANC CFA

### 6.1 Heads of state who rebelled against the CFA franc

As a result of the various evidence that show that the CFA franc has brought more disadvantages than advantages to the African peoples, it will now be shown how over the years there have been States and Heads of State that have distinguished themselves for having put up resistance to this monetary system. Among them there are: Sekou Toure, President of Guinea from 1958 to 1984; Modibo Keita, President of Mali until 1968; Sylvanus Olympio, President of Togo from 1960 to 1963; Thomas Sankara, President of Burkina Faso from 1983 to 1987, and Didier Ratsikara, Minister of Foreign Affairs of Madagascar (an example of a country that managed to recover the full exercise of its monetary sovereignty). France has done everything to discourage these states that have sought to get out of this system: intimidation, destabilization and even assassinations and coups d'état (see Table 6.1).

COUPS D'ÉTAT DANS LA ZONE FRANC (1960-2012).

		réussis		avortés		Total
		1960-2000	2000-2012	1960-2000	2000-2012	
UEMOA	Bénin	7	0	4	0	11
	Burkina Faso	6	0	0	0	6
	Côte d'Ivoire	1	1	1	3	6
	Guinée-Bissau	1	2	2	2	7
	Mali	2	1	2	0	5
	Niger	3	1	2	0	6
	Sénégal	0	0	1	0	1
	Togo	2	0	4	0	6
	<i>Total</i>	<i>22</i>	<i>5</i>	<i>16</i>	<i>5</i>	<i>48</i>
CEMAC	Cameroun	0	0	2	0	2
	République du Congo	2	0	3	0	5
	Gabon	0	0	1	0	1
	Guinée équatoriale	1	0	3	1	5
	République Centrafricaine	3	1	4	1	9
	Tchad	2	1	4	1	8
	<i>Total</i>	<i>8</i>	<i>2</i>	<i>17</i>	<i>3</i>	<i>30</i>
<i>Total zone franc (1)</i>		<i>30</i>	<i>7</i>	<i>33</i>	<i>8</i>	<i>78</i>
<i>Total Afrique (51 pays) (2)</i>		<i>80</i>	<i>12</i>	<i>93</i>	<i>21</i>	<i>206</i>
<i>(1)/(2) en %</i>		<i>37,5</i>	<i>58,3</i>	<i>35,5</i>	<i>38,1</i>	<i>37,9</i>

Source : Ben Barka et Ncube, 2012.

*\*It does not refer only to coups d'Etat organized by France.*

#### 6.1.1 The «Persil» operation against the Guinea of Sékou Touré

It was in Guinea that France was challenged for the first time on the question of the CFA franc. And its reaction was extremely violent.

It all began on 25 August 1958, when the French Head of State, General de Gaulle, went to Conakry, the capital of Guinea, to defend the project of Community which he proposed to the African territories administered by France and which was to be submitted on 28 September by referendum to the citizens of each of the countries concerned: they will have to choose between joining the

Community or become independent. The French authorities have made it clear to their interlocutors that independence would mean the end of all cooperation with France. “*Independence, whoever wanted it could take it immediately. The metropolis will not oppose it*”, declared Charles de Gaulle in Brazzaville (Congo) on 24 August 1958, while specifying that the one who chooses independence “*will follow his path alone, at his risk and peril*» (Pigeaud & Sylla, 2019, p.72).

In Conakry, the general was received by Ahmed Sékou Touré, member of the French National Assembly, Mayor of Conakry, Vice-President of the Government Council of Guinea and then President of Guinea (1958-1984). This former union leader was not anti-French. But he did not appreciate the blackmail on development aid that the French head of state seemed to want to exercise. Talking with De Gaulle in front of his fellow citizens, Sékou Touré used an unequivocal language: «*We will not give up and we will never give up our legitimate and natural right to independence*», he said. He added, “*We prefer poverty in freedom to wealth in slavery*”. These remarks offended the French president who «received all this as an insult», according to former High Commissioner of the AOF Pierre Messmer (Messmer, 1998).

Sékou Touré did not intend to break completely with France. A few days before the referendum, he wanted to reassure the foreign companies present in Guinea, whose agricultural sector was one of the most successful in West Africa, and which had enormous mineral resources and exceptional hydro-electric potential: “*Our desire is to remain in the franc zone*,” he said, promising that the transfer of capital between France and Guinea will remain free (Julienne, 1988). However, it suggested that Guinea could join another monetary zone if its retention in the franc zone proved impossible.

On the day of the referendum, 28 September 1958, the CFA franc was undoubtedly at the top of the list of concerns of the French authorities. Convinced that Guinea will choose independence and fearing that it will use it in the wake of the monetary reserves of the agency of the BCEAO of Conakry, they ordered the French army to quietly evacuate this money from the country, what was done by sea on the same day on the 28th.

The result of the referendum was clear: as Paris had anticipated, 95% of Guinea rejected the idea of being part of the Community. Of the territories consulted, it was the only one to choose this option. Independence was pronounced almost immediately, on 2 October 1958. The new state was quickly recognized by Kwame Nkrumah’s Ghana, which had been independent for a year, by the Soviet Union and by Egypt. France did not recognize this until January 1959. In the meantime, the latter had repatriated all its staff, cut its budgetary aid and put an end to the payment of the pensions of the twenty thousand Guinean veterans who had fought for France. It also sought, but unsuccessfully, to prevent Guinea’s admission to the United Nations. Paris wanted to prevent other

countries from being tempted to follow the Guinean example. *“If France gave preference to those who seceded from those who chose the Community, then Guinean secession would be a blight,”* declared, in an interview on 15 October 1958, Félix Houphouët, the future Ivorian president, then a minister in the French government (Pigeaud & Sylla, 2019, p.74).

Although Sékou Touré addressed to the new partners, including the Soviet Union, Guinea remained part of the franc zone. For several months, Guineans and French tried to reach an agreement on the monetary issue. The first wanted to create a national currency while remaining in the franc zone, but without having to respect the *«humiliating»* rules (Messmer, 1998). The excessively centralizing nature of the franc zone was particularly disturbing the Guinean authorities, as it was the impossibility imposed by Paris on their country to negotiate its trade agreements on its own (Julienne, 1988). Conakry was studying different scenarios, including joining the sterling zone and partnering with Ghana. About that, the French side was divided: Charles de Gaulle no longer wanted to hear about Guinea and even less about Sékou Touré. His advisor Jacques Foccart, the man of the secret services and one of the main craftsmen of *Françafrique*, focused instead on a rapid fall of the Guinean leader. Others, such as the French Overseas Minister, did not wish to break with Conakry. From the point of view of the Ministry of Finance, it was even important to keep Guinea in the franc zone for the sake of French economic interests (Pigeaud & Sylla, 2019).

Finally, faced with Paris' unwillingness to loosen the rules of the CFA system, on 1 March 1960, with the help of foreign experts, Guinea created the bank of the Republic of Guinea and launched its own currency, the Guinean Franc. At the same time, he left the franc area. The Guinean authorities, therefore, did what the French were afraid would happen the day after the referendum: they seized the reserves of the Conakry agency of the BCEAO, believing that they belonged to the nation. This measure marked the beginning of a lengthy dispute between Guinea on the one hand and France and the BCEAO Member States on the other (Pigeaud & Sylla, 2019).

For Paris, it was the straw that broke the camel's back. In the months that followed, France did everything to isolate and destabilize Guinea, and to make Sékou Touré “vulnerable” and “unpopular”. As Maurice Robert, director of the African section of the SDECE<sup>53</sup>, told a few decades later, *“France launched a series of armed operations using local mercenaries, with the aim of developing a climate of insecurity and, if possible, overthrow Sékou Touré”* (Robert, 2004). The SDECE was also launching economic attacks. One of them, which was part of a destabilization operation called *«Persil»*, was particularly perverse: it consisted of manufacturing counterfeit

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<sup>53</sup> The Directorate-General for External Security (DGSE), sometimes simply called External Security (SE), is the France's intelligence service since 1982. Before the decree of 2 April 1982, which carried out its restructuring, the service was called Service de documentation extérieur et de contre-espionnage (SDECE).

Guinean banknotes in France, in the SDECE printing works, and massively selling them in the country. The result was the collapse of the Guinean economy. “This operation was a real success and the Guinean economy, already very sick, had a hard time recovering” explained Maurice Robert (Robert, 2004). According to him, Operation Persil was conceived by the boss of the SDECE, General Paul Grossin: «*It is in any case he who gave me the instructions and clarifications necessary for its application*», he wrote. He also said that it was not a matter of punishing Sékou Touré for the affront made to France, but of “preventing” the countries of Eastern Europe, interested in the mineral resources of Guinea, from exploiting “*a bridgehead that could be used to disseminate subversion*”. In 1962, the French Prime Minister, Georges Pompidou, explained from his part to his ministers who were afraid to see the other African countries of the franc zone claim in their turn the right to a national currency: “*Let us allow the experience of Sékou Touré to unfold. Many Africans are beginning to feel that Guinean politics are suicidal and contrary to the interests of the whole of Africa*” (Oulmont & Vaisse, 2014). Diplomatic relations between Guinea and France ended in November 1965. They were not restored until 14 July 1975, after the death of General de Gaulle and his successor, Georges Pompidou, and with the exclusion of Jacques Foccart (Pigeaud & Sylla, 2019).

Although the operation « Persil », in combination with other factors, had led to a sharp depreciation of the Guinean franc and significant increases in the price of raw materials, Guinea still retained its currency (which took the name *styli* between 1972 and 1986). It remains outside the Franc zone and its economy is very fragile.

### **6.1.2 The Mali of Modibo Keita**

The experience of Guinea had inspired Mali to proclaim independence on 20 September 1960. This new socialist state, led by Mobito Keita, did not want to be part of the Franc-African Community of General de Gaulle: it wanted complete independence. On 22 September, Mobit Keita evoked the idea of a “Republic of Mali free from all political commitment and ties towards France” (Diarra, 2010).

Very quickly, the Malian authorities set up a Treasury, a Monetary Committee at the BCEAO agency and an exchange office. Their project was to endow the country with a national currency. Before reaching this point, they changed their relationship with the former colonial power by getting closer to the Pan-African presidents of Ghana and Guinea, Kwame Nkrumah and Sékou Touré. The government also signed cooperation agreements with the Soviet Union and asked France to evacuate the military bases it occupied on its territory. It also created state-owned enterprises, which, according to Modibo Keita, should “*ensure the succession of foreign establishments and give new blood to the economic life of the Nation exhausted by years of colonial domination*” (Pigeaud & Sylla, 2019, pp. 78-79).



Throughout the end of 1960, relations between France and Mali were strained. The French government and BCEAO officials were afraid of a repeat of the Guinean scenario: they thought that Bamako was preparing to launch its currency and would seize the reserves of the Malian agency of BCEAO. The French ministries of cooperation and finance were therefore asking BCEAO to reduce their quantity to the minimum (Migani, 2008). At the beginning of 1961, France and the BCEAO found a trick to counter the Bamako monetary project: at the initiative of Paris, an «international conference» was organized under the pretext of discussing the future of the franc zone with the members of the BCEAO. According to historian Guia Migani, the idea was to involve Mali in multilateral negotiations, making it “more difficult to achieve monetary reform that is detrimental to other Member States” (Migani, 2008). It worked. Mali agreed to participate in the conference, which was taking place on 13 March in Paris. On this occasion, Modibo Keita explained that he did not intend, for the moment, to create a Malian currency: he pleaded for an immediate reform of the franc zone. Several cooperation agreements were negotiated between France and Mali in the following months. After dragging out discussions on the franc zone, the French agreed on 9 March 1962 to recognize Mali’s right to create a national currency.

On 12 May 1962, Mali, after having participated in new talks on a reform of the BCEAO, signed the agreements establishing the UMOA. However, Modibo Keita did not renounce his project of monetary independence. On the contrary, while participating in the creation of the UMOA, the Malian authorities prepared in the utmost secrecy the launch of a national currency. On 30 June 1962, the Malian President announced to Parliament the birth, the following day, of the Malian franc and the withdrawal of his country from the UMOA. It stressed the need for complete sovereignty: “*History teaches us that political power is always and necessarily accompanied by the sovereign right to mint currency, that monetary power is inseparable from national sovereignty, that it is the indispensable complement, the essential attribute [...]*”, declared the president (Migani, 2008).

Modibo Keita regretted that the franc zone system had prevented the diversification of the country’s economy and that all decision-making powers were held by Paris. “*How can we promote the harmonious economic development of the nation if we do not have the necessary means, the powerful lever of control that constitutes the currency?*” he asked (Migani, 2008). He also made a severe criticism to the operating account system: “*The guarantee that a State can grant to a foreign currency is too often only an illusory guarantee, more psychological than real. [...] France guarantees the CFA franc only because it knows that this guarantee will not actually play. Should it be recalled, for example, that the African States which are members of the current West African zone have a debt of about 30 billion against France? Paradoxically, this means that in recent years the CFA franc did not need the guarantee of the French franc*” (Migani, 2008).

However, all the arrangements for the operation of the new Malian currency had not yet been settled. Modibo Keita did not want to suffer the fate inflicted on Guinea. His idea was to open an «advance account» with the French Treasury. This option would allow Mali to benefit from a guarantee provided by the French Treasury, which would certainly be limited, but which would prevent it from being totally subject to Paris as is the case with an operational account.

But the Ministry of Finance, supported by the Prime Minister, refused the idea of an advance account. Mali therefore left the franc zone in 1962.

The Malian franc would have known a relatively short existence: from the beginning it had to face a large number of obstacles. This complicated things for the Malian and foreign business community, which were afraid of a repetition of what had happened in Guinea.

Following the launch of the Malian franc, the Member States of the UMOA also took measures to limit trade with Mali, a landlocked country without access to the sea, which would contribute to depreciate its currency. The country quickly found itself in difficulty. In 1964, Modibo Keita was forced to return to Paris. In 1967, Mali returned to the franc zone, an operating account was opened with the French Treasury and the Malian franc was devalued by 50%.

*“The regime of President Modibo Keita, through a more than incorrect management of the currency, has become hara-kiri,”* wrote the economist Joseph Tchundjang Pouemi (Tchundjang Pouemi, 2000, p. 131). According to him, Bamako made the mistake of creating money – using the “money board” – to finance unproductive projects. Moreover, the Malian president had failed to reform the banking system which had kept its colonial functioning. According to the economist, the example of Mali also shows *“the danger of wanting to go it alone, without protection”* (Tchundjang Pouemi, 2000, p. 126).

In 1968, a military coup led by a former French legionary, Lieutenant Moussa Traoré, overthrew Modibo Keita. The latter, detained in the military camp of Djicoroni, died in 1977, at 62 years of age, in troubled circumstances. The Malian franc, which in fact was a 50% devalued CFA franc and thus a satellite currency of the French franc, was finally abolished in 1984, when Mali joined the UMOA and readopted the CFA franc (Pigeaud & Sylla, 2019).

### **6.1.3 The murder of Sylvanus Olympio, president of Togo**

In the early 1960s, another West African country also contemplated the idea of creating its own currency: Togo. But even in this case the experience ended badly. Without going into detail about the particular colonial history of Togo, it is necessary to go back a bit in time to understand the events of this period. The key date was the 1946. In that year, the United Nations made Togo a «territory under trusteeship», entrusting the French authorities to administer it and to lead it to independence. But France, which occupied the country since 1919, hardly wanted to see it become

independent. In fact, the French government tried to guide the process in such a way as to maintain control of the game.

In 1956, Togo became an “autonomous republic” but remained a member of the French Union and retained its status as a “territory under trusteeship”. The “Republic of Togo” was officially proclaimed on 22 February 1958. However, its defense, diplomacy and currency were managed by the French government. The country still used the CFA franc and belonged to the franc zone. In December 1958, the General Assembly of the United Nations set the date for the proclamation of the country’s total independence: it would take place on 27 April 1960. Meanwhile, it was a figure of the nationalist and independence cause, Sylvanus Olympio, who would have led the transition period.

He had always opposed the French Union and had often criticized French leaders. “*France does not want to grant real autonomy, because it fears that this will trigger a contagious movement in the other African territories,*” he said in October 1956 (Pigeaud & Sylla, 2019, p. 84). After his victory in the general elections, he promised his compatriots that he would do everything possible for Togo to do without France’s help. Paris, which considered him «anti-French», repeatedly tried to keep him away from the political scene.

Before Togo became fully independent, Sylvanus Olympio wanted to redefine his monetary ties with France. While he said he was in favor of keeping the country in the franc zone, he called for a relaxation of its operating rules. Paris refused, fearing that it would then have to grant the same concessions to the other countries in the area. The French authorities proposed to the Togolese Prime Minister “*to wait for independence before defining a new monetary system: at that time, it will have the choice between remaining a member of the franc zone on the same conditions as the others, or creating an autonomous Togolese currency, supporting the responsibilities and risks of such an operation,*” explained Guia Migani (Migani, 2008). In March 1960, a month before independence, Sylvanus Olympio announced that Togo, once a sovereign state, would not be a member of the Franc-African Community but would nevertheless sign economic and defense agreements with France. The latter hoped to succeed in preserving privileged access to Togo’s resources and to remain its first supplier. But Sylvanus Olympio wanted to keep his hands free and trade with the countries of his choice.

When Togo gained independence on 27 April 1960, Paris and Lomé reached a provisional agreement on the monetary issue: Togo remained a member of the franc zone and continued to use the CFA franc. However, France recognized the possibility of creating a currency and a national issuing institute.

Once independence was proclaimed, Sylvanus Olympio – who became President of Togo in 1961 – approached the Federal Republic of Germany and the United States and developed trade

relations with African states not members of the franc zone. He made a new proposal to France: advised by a German expert, he wanted Togo to remain a member of the franc zone and use the CFA franc, but with more flexible rules, in order to be able to define its own credit policy, in agreement with the BCEAO (Migani, 2005). Like Mali before it, the Togolese government wanted to be linked to the French Treasury by an advance account. Paris responded unfavorably. After much discussion, an agreement was reached in September 1962. The agreement consisted in the creation of a national issuing institute, headed by a joint board of directors; the chairman of the board of directors would be appointed by the Togolese government, and the managing director, who received significant management powers, by the French Government; the Togolese currency, provisionally known as the “Togolese franc”, would be unlimitedly guaranteed by the French Treasury. These provisions had to come into force after the transfer of the issue powers from the BCEAO to the Togolese bank, unofficially scheduled for the summer of 1963 (Migani, 2005). On December 12, 1962, the Togolese president promulgated a law establishing the «Central Bank of Togo» and specifying that the Togolese Franc would be the «legal currency of Togo».

But the Togolese Franc would never see the light: on 13 January 1963, at 7.15, Sylvanus Olympio was killed with a gunfire in front of the gate of the American Embassy, in Lomé, by a group of former Togolese soldiers who had served in the French army (Boisbouvier, 2013).

On 16 January 1963, a faithful ally of France succeeded Sylvanus Olympio: Nicolas Grunitzky, former Prime Minister of the Autonomous Republic of Togo and deputy of Togo in the French National Assembly. He quickly expressed his desire to strengthen the ties between Lomé and Paris. On 10 July 1963, eight “cooperation agreements” were signed, including a “Cooperation Agreement on Economic, Monetary and Financial Matters”, which stipulated that Togo would remain in the franc zone and would retain the CFA franc. In November 1963, Nicolas Grunitzky ratified the Treaty of 12 May 1962 establishing the UMOA and the Monetary Cooperation Agreement between the French Republic and the member countries of that Union (Pigeaud & Sylla, 2019). In six months, Sylvanus Olympio’s fight for economic sovereignty was swept away.

#### **6.1.4 The dream of Thomas Sankara (1983- 1987)**

In the 1980s there were much less debates on the CFA franc than in the previous decade. Only Thomas Sankara, who came to power in 1983 in Haute-Volta after a military coup d'état, was trying to put an end to the political and economic dependency relationship established by Paris. This military, which had profoundly transformed his country, renaming it Burkina Faso («the country of upright men»), had very specific ideas on the monetary issue. In 1984, in a speech to the United Nations General Assembly, he said: “The new world economic order for which we struggle and will continue to struggle can only be achieved if we succeed in ruining the old order which ignores us, if

we impose our rightful place in the political organization of the world, if, recognizing our importance in the world, we gain a right of decision-making on the mechanisms that govern trade, economy and currency on a planetary scale” (Pigeaud & Sylla, 2019, p. 101).

In 1985, the Cameroonian writer Mongo Beti asked to him: *“Is not the CFA franc a weapon of domination for Africans? Does the revolutionary Burkina Faso plan to continue dragging this ball and chain? How does the African peasant in his village need a convertible currency?”* (Beti, 2005). Sankara answered: *“Whether the currency is convertible or unconverted has never been the concern of the African peasant. He has been thrust into an economic system against which he is powerless. In this context, I would say that the CFA franc, linked to the French monetary system, is a weapon of French domination. The French economy, and hence the French capitalist mercantile bourgeoisie, builds its fortune on the backs of our peoples through this bond, this monetary monopoly. That is why Burkina Faso is fighting to put an end to this situation through the struggle of our people to build a self-sufficient, independent economy. How much longer this will last, I cannot say”* (Beti, 2005).

Like Sylvanus Olympio twenty years earlier, Thomas Sankara could not complete his project: he was assassinated on 15 October 1987. One of the main suspects of this murder – which has not yet been tried – was his successor and former comrade-in-arms, Blaise Compaoré. The latter, who remained in power until 2014, never disputed the existence of the CFA franc and maintained very close ties with France. Basile Guissou, Thomas Sankara’s Minister of Foreign Affairs, said in 2017 that he regretted not having been able to achieve monetary independence: *“The currency has remained colonial. There have been attempts to get us out of this, but unfortunately it was a question of power relations. It was not possible for a CFA member country to beat currency and escape repression from neighbouring countries and France”* (BBC, 2019).

### **6.1.5 Madagascar’s fight “to recover the full exercise of its sovereignty”**

Madagascar, instead, unlike the examples above, managed to leave the FCFA in 1973, but not without difficulties.

The process began in 1972, following a national movement to challenge the cooperation agreements with France and the power of President Philibert Tsiranana, considered too close to the former colonial power. For several weeks, demonstrations gathered in Tananarive, the capital, with university and high school students and workers. After deadly clashes with security forces on 13 May 1972, President Tsiranana finally handed over full powers to the Chief of Staff of the Army, General Gabriel Ramanantsoa, who formed a government and announced: *“Cooperation must evolve. This is the first question I will study”*. For several months, Paris did not comment on the subject (Pigeaud & Sylla, 2019, p. 96).

Franc-Malagasy talks started officially on 25 January 1973. They took place mainly in Paris. The Malagasy Minister of Foreign Affairs, Didier Ratsiraka, led the delegation of experts conducting the negotiations on behalf of Tananarive.

From the beginning, the tension was palpable. Didier Ratsiraka knew what he wanted. “*Madagascar*,” he says, “*is determined to regain full sovereignty in all areas, politics, economics, money, defence, education.*” (Pigeaud & Sylla, 2019, p.96). Military and monetary issues were the most difficult to negotiate. While Didier Ratsiraka no longer wanted any French military presence, Paris wanted to keep its military base in Diego-Suarez. With regard to the currency, the Malagasy minister set himself the objective of making Madagascar leave the franc zone, without any compromise: the CFA franc having legal tender on the territory of the Republic of Madagascar was renamed Malagasy franc in 1963, but it was still based on the CFA system.

Within the Malagasy delegation, not everyone agreed with Didier Ratsiraka. Most of his colleagues tried to convince him to give up the project of leaving from the franc zone. Aware of these dissensions, the French exploited them and sought to change their interlocutor.

Finally, the French agreed to abandon their military bases. But on the monetary issue, no common ground was found. The Malagasy authorities were drawing the consequences. On 21 May 1973, General Gabriel Ramanantsoa declared, “*We would rather remain poor, but worthy, than kneel before riches*” (Pigeaud & Sylla, 2019, p.98). The next day, Didier Ratsiraka announced from Paris that Madagascar was leaving the franc zone. On 4 June 1973, Didier Ratsiraka and Jean-François Deniau signed the revised agreements, without the question of currency being included. Upon his return to Madagascar, the Minister of Foreign Affairs was greeted triumphantly by his compatriots. On 12 June, the Central Bank of the Republic of Madagascar was created, succeeding the Malagasy Issuing Institute. The Malagasy franc changed its name in 2003 to the *ariary*. Its existence has never been questioned, despite the periods of severe turbulence that it went through in the following decades (Pigeaud & Sylla, 2019).

## **6.2 Today’s society against FCFA**

The sacrifices and battles of the previous heads of state was not in vain. For a long time, everything was done to keep the subject of the CFA franc and the issues surrounding it away from public debate. However, for a few years now, the CFA franc has ceased to be a matter for discussion only by experts: it has left the corridors of financial institutions to look out onto the streets and squares. Today, both in France and in Africa, it is the subject of television shows, demonstrations, conferences. The demands to end the CFA franc are multiplying and the pressure is increasing.

There are various pan-African movements that protest to free Africa from all ties with France, and that therefore "fight" to end the CFA franc system.

But what does it mean "pan-African"? The word pan-Africanism was invented in 1900 by lawyer Henry Sylvester, proponent of the first conference in London to "*protest against the theft of land in all European colonies, racial discrimination and discuss in general the problems of blacks*" (Renda, 2020).

From that moment on, the meaning of the word "pan-Africanism" has mainly taken two directions: the first is that which interprets pan-Africanism as a political and cultural movement promoting unity between African countries and the creation of institutions to make it effective; the second was the attempt to create a sense of brotherhood and collaboration among all people of African Descent whether they lived inside or outside of Africa.

Pan-african anti-CFA groups are made up of activists, university professors, ministers or former ministers. Street demonstrations against the franc Cfa are often organized in some African capitals (Niamey, Bamako, Dakar, etc.) on the initiative of some organizations. In addition, numerous conferences, organized in universities, on television and radio channels, are held to inform about the need to abandon the Franc CFA.

Senegal, for example, has set up an anti-French front which organizes numerous conferences and demonstrations emphasizing the need for African countries to acquire their monetary sovereignty. One of the intellectual leaders of this movement is Togolese professor Kako Nubukpo.

The best-known movement, for the episodes that have seen its founder as the protagonist, is the non-governmental organization *Urgences Panafricanistes* (URPANAF) which condemns and protests against the use of the CFA franc and proposes a boycott of the French currency and French import products.

The NGO URPANAF was created in December 2015 in Senegal to defend, among other things, the cause of the Black Man, the sovereignty of Africa, and against imperialism. It is represented in several African countries and in Europe. Its president, Kemi Seba, is referred to as "the most up-to-date expression of pan-Africanism.

During a demonstration in Dakar, 8 August 2017, Seba, after burning a 5000 Francs CFA banknote as an act of protest, was arrested by order of the French authorities and imprisoned for the duration of twenty-four hours. He was released because the Laws punished a person who destroys "bank notes", not a bank note. On the same occasion, Seba reiterated the principle that "*in the twenty-first century, each people normally has the right to own its own currency and to decide its own political future*". Young people in parts of West Africa (particularly in his home country, Benin) will burn notes in support of him (Shaban, 2018).

Several hundred demonstrators gathered on 16 September 2017 in several cities in French-speaking Africa, at the call of the movement Urgences Panafricanistes to say no to the CFA franc, including Cotonou, Dakar, Libreville, Bamako, Ouagadougou, and as far as the Paris region and the West Indies. "*We say no to a paternalistic France, a France that dispossesses the Africans, that murders our worthy sons, that deports the Africans who dare to stand against them. We say no to a submissive Africa*", declared the president of "Urgences Panafricanistes Burkina", Hervé Ouattara (Johnson, 2017).

In Benin, the call to protest against the currency, shared by the franc zone, brought together some 200 people. "*It is a sociological, economic, political and social handicap*", declared Amadidjè Sèmevo Mondésir, who designated himself as the first ambassador to the "Non au franc CFA" movement. "*It is the fight of youth and Africa*", he said (Johnson, 2017).

Seba clarified that their current struggle against the CFA franc goes far beyond purely monetary issues, as it "*expresses the will of our people for full sovereignty. The will for political, military, cultural, social and economic self-determination*" (Puente, 2019).



## CHAPTER 7 \_ THE END OF CFA FRANC? ECO

### 7.1 The introduction of eco

*“Faced with growing pressure from African public opinion, President Emmanuel Macron, who at the beginning wanted to ignore the growing movement, declaring it a ‘non-issue’ for France<sup>54</sup>, finally conceded that the time had come to turn the page”* (Sylla, 2020c).

The CFA franc received its coup de grace on Saturday 21 December, almost 60 years after African independence. Emmanuel Macron and Alassane Ouattara announced in Abidjan the disappearance of the Franc of the African Financial Community which will be replaced by the *eco* (Bensimon, 2019).

*"It was when I heard your youth that I wanted to start this reform. The CFA Franc crystallizes many criticisms of France. I see your youth blaming us for a relationship that they consider post-colonial. So, let us break the mooring”*, said the French president (Faye, 2020).

At his side, the Ivorian head of state, Alassane Ouattara, said that this «historic» decision was *«taken in complete sovereignty. It takes into account our desire to build our future responsibly»* (Bensimon, 2019).

Presidents Macron and Ouattara tried to change some of the franc CFA most embarrassing symbols, that anti-CFA movements contest: the name, French representation at the BCEAO and direct French control of the foreign exchange reserves of African countries (Sylla, 2020a).

In fact, with the introduction of *eco*, the Central Bank of UEMOA will no longer have French representatives, and it will no longer be required to deposit its foreign exchange reserves with the French Treasury. In the end, the CFA franc will be called “Eco”. It is based on these three announced reforms that the presidents of Côte d’Ivoire and France declared the “end of the CFA franc”.

However, despite the reported changes, the most important features of this colonial monetary system, such as the fixed parity with the euro and the free movement of capitals, remain in place. *“According to former BCEAO governor Philippe Henri Dacoury-Tabley, the reforms announced by the two presidents are a “sleight of hand”—and he is not wrong. Of the four pillars of the CFA system, the only one that has been impacted by these reforms is the centralized control of exchange reserves. But this is not the key issue”* (Sylla, 2020c): *“far from being upended, the neo-colonial link has now been formalized through the renewal of the not-yet-published monetary cooperation agreement signed between the French government and the eight West African countries that use the CFA franc”* (Sylla, 2020a).

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<sup>54</sup> Speaking in Ougadougou, Burkina Faso in November 2017, Emmanuel Macron declared that the CFA franc was a “non-issue” for France (Sylla, 2020c).

### **7.1.1 Changes and no changes**

First of all, it is important to understand the role of the ECO, and this is well indicated in the press release published in the official website of the BCEAO and written by Tiémoko Meyliet Kone, governor of the BCEAO: “improving trade between member countries, strengthening the stability and resilience of economies, and driving strong, sustainable and inclusive growth at the regional level” (Kone, 2019). Currency exchange will initially concern only the eight UEMOA countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo). For the time being, the CEMAC area will not be part of this major change as it is still considered to be far from meeting the expected convergence criteria and still needs to recover after the severe crisis experienced between 2014 and 2015 following the collapse of oil prices (Ndiaye, 2020).

Let us see in detail what will change and what will remain unchanged with the new currency.

#### **What will change:**

##### **1. No more French administrators at BCEAO**

“France will no longer appoint any representative in the management bodies of the Central Bank of West African States,” explained the Elysée Palace.

The former colonizer made a commitment to withdraw from the Board of Directors and the Monetary Policy Committee of the BCEAO, but also from the Banking Commission of UEMOA. This has often been seen over the years as a means of controlling African countries for France, as its representatives have a veto, so no decision can be taken without their agreement (Ndiaye, 2020).

##### **2. End of deposit of foreign reserves in the French Treasury**

This point has been one of the arguments against which many African economists and intellectuals, but also other European powers, have increasingly opposed, believing that this operation constitutes a great exploitation of African countries.

Foreign exchange reserves will no longer be centralized by France and the obligation to pay 50% of these reserves on the famous French Treasury operating account disappears. "What we need to understand for the operation account is that there will always be a minimum of foreign exchange reserves, but this will just not be kept by France," argued university professor Abdoulaye Ndiaye, professor-researcher at the University of New York in the United States. "In our multi-state zone, there may be certain political pressures that some leaders would like to spend too much, a minimum of foreign exchange reserves could give us too many assurances in case there is a stop of capital inflows in the zone", he explained (Faye, 2020).

##### **3. The historical name FCFA will change to ECO**

This is a great victory for the many anti-FCFA movements which, despite the fact that France has always maintained in recent years that the FCFA was an African currency, saw it rather as a French

currency used by Africans through its name “franc” which still recalled the colonial past and seemed to highlight the close link that still exists with France. This new name now erases any French sound.

However, there is an history behind the name “eco”. Macron and Outtara's decision to rename the CFA franc to the eco, seems to be a violation of the roadmap agreed by CEDEAO (Sylla, 2020a). In fact, in June 2019 the CEDEAO (Communauté économique des États de l’Afrique de l’Ouest)<sup>55</sup>, bringing together eight CFA franc countries and seven others with their own currencies (Gambia, Guinea, Nigeria, Ghana, Sierra Leone, Liberia and Cape Verde), chose eco (short for ECOWAS) as the name for its planned single currency — a project which has been in the works since the mid-1980s. CEDEAO agreed to peg its future single regional currency to a basket of foreign currencies, including the US dollar, the euro, and potentially other major currencies. After many postponements, the CEDEAO eco was supposed to be launched in 2020. The ECOWAS roadmap was based on a very unrealistic, gradual integration scheme. Countries that would meet the convergence criteria – that is to say the criteria for entry into the future eco zone – should launch eco in 2020<sup>56</sup> (Sylla, 2020b).

President Muhammadu Buhari of Nigeria, whose country accounts for 70% of CEDEAO GDP, strongly criticised the decision of the UEMOA countries to rush to take back the Eco in place of its CFA franc before the other CEDEAO member states without consulting his country (Faye, 2020).

Indeed, according to some observers, Macron and Outtara have “kidnapped” the eco in order to sabotage the ECOWAS monetary integration project and isolate Nigeria in particular. France has never hidden its desire to expand the West African Economic and Monetary Union (currently grouping only the eight West African countries that use the CFA franc) to include more countries in the region. The exception, however, is Nigeria, too big to benefit from any supposed “guarantee” from France or the European monetary authorities (Sylla, 2020c).

### **What will not change:**

#### **1. The fixed parity with the euro**

If the choice to maintain a fixed parity with the euro can be considered as a means of preserving economic stability, avoiding the risk of inflation and guaranteeing the same value of the currency for consumers, it makes the economies of the countries of the zone also dependent on the monetary policy of the European Central Bank.

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<sup>55</sup> CEDEAO = ECOWAS (Economic Community of West African States).

<sup>56</sup> ECO CEDEAO will be better treated later.

This condition has long been criticized because it does not allow African states to exercise their monetary sovereignty and penalizes exports and the competitiveness of African economies (Ndiaye, 2020).

As a defender of the CFA, considering that it penalizes the industrialization and exports of African economies, economist Carlos Lopes believes that the change that has taken place is the result of a welcome political opportunism. It does not fit the original idea of a regional single currency, but it is the best way to move forward (Bensimon, 2019).

## **2. The role of France as “guarantor”**

French President said that France would continue to guarantee the unlimited convertibility of the new currency. But this time, without any conditions imposed. That is to say, without the obligation to deposit 50% of the reserves in operating accounts based in France.

But how can it guarantee convertibility if it is ensured today through the “operating account”, and the latter will be eliminated?

The simplest way is to create a new account with the French Public Treasury, which can become a debtor, naturally by giving it a new name, for example «guarantee account». Paris would therefore move from a co-manager role to a guarantor role. The guarantee provided by France is supposed to work on the same principle as at present: if the BCEAO faces a lack of availability to cover its commitments in foreign currency, it will be able to obtain the necessary euros from France. It is therefore assumed that the guarantee will be “unlimited” as the current guarantee (Guillaumont & Guillaumont Jeanneney, 2020). The choice of an unlimited guarantee is a very important factor for the credibility of the new currency. If it were a fixed guarantee, that is to say a simple credit line, on which the central bank could draw if its reserves were exhausted, the nature of the guarantee would be profoundly altered. The level of such a line is inherently difficult to define. The lower it is, the less the credit line can play its role as a guarantee, as getting closer to it can lead to speculation. The higher it is, the more likely its use is to be subject to conditions. If these were negotiated before the use of credit, the “guarantee” would not differ from IMF assistance, with the conditionality varying according to their nature. (Guillaumont & Guillaumont Jeanneney, 2020).

It is not known, for the moment, in which formal framework this guarantee will be exercised since the Convention for Cooperation between France and the UEMOA States has not been made public.

With regard to the convergence criteria, in order for ECO to work, specific conditions must be put in place. According to the International Monetary Fund, the success of this project depends on the

consideration of certain political and economic factors. Indeed, the implementation of the ECO requires compliance with certain convergence criteria which are:

- stay below 3% of deficit on GDP;
- stay below 10% inflation;
- have a debt below 70% of GDP.

Besides these strictly economic aspects, there are other factors that should be put in place to achieve good economic cooperation between all States, such as the existence of a true labour market, which allows workers to move easily; greater flexibility in prices and wages; and, also, a real mobility of capitals, which are necessary to eliminate trade imbalances in the country. In addition, such a project requires the countries concerned to have similar economic cycles to avoid shocks.

### **7.1.2 When will eco banknotes go into circulation?**

A question that arises spontaneously is “When would we see the banknotes of the eco circulate?”

*“Eco does not exist yet. Today, we are still with the CFA franc. We feel like we are going around in circles”* lamented Kako Nubukpo (Hadjene, 2020).

The main condition for making the negotiated changes is compliance with the three criteria mentioned above. At the moment, only four countries, including Côte d'Ivoire, meet the criteria. Thus, the process could be gradual with, at the beginning, four countries, before being joined by other countries, like the eurozone which has gradually expanded. (Hadjene, 2020). In addition, some non-EUMOA countries, such as Nigeria, require further conditions before joining the single currency. Nigeria requires in particular the printing of the eco in Africa and not in France, the management of the eco by CEDEAO and even refuses any idea of deposit to the French Treasury of part of the foreign reserves of the ECO zone countries. Moreover, the African oil giant does not want an intermediary in the convertibility between the ECO, the euro and the dollar. As for Ghana, its President Nana Akufo-Addo said that the country could integrate the future monetary area as this decision would ensure the free movement of goods in the concerned countries of the West African region. In addition to these political difficulties and differences, the coronavirus crisis has impacted the debt levels of the countries involved in this reform, making compliance with the convergence criteria difficult. Despite this health crisis, the agenda seemed to continue, reflecting a willingness to implement these hard-negotiated changes and underpinning the strategic challenge of African countries in the new post-covid-19 global economic order. (Hadjene, 2020)

However, despite the willingness of the two French and Ivorian presidents to respect the agenda put in place, the reality seems less clear. Indeed, nothing seems to show the outline of a change

of currency. Since the symbolic date of 1 July was chosen for the beginning of this reform, a few days later, France and the African countries concerned have still not made a statement on the subject.

### 7.1.3 The opinion of the experts

There are several opinions regarding this change.

Ivorian economist and politician Mamadou Koulibaly did not rejoice at the announcement of the two heads of state. According to him, the CFA is not dead, since actually, in Dakar, Ouaga, Lomé, etc. people continue to use the CFA and will be able to use it for a long time. *“To say that the CFA is dead is a merely political declaration, when it is a serious financial and monetary issue. We get the impression that to calm down the pressures of economic operators, businessmen who are worried about the difficulties of the CFA zone, the Heads of State say to themselves “well, we will throw something at them, they will have fun with it and then we will keep going”*”, he declared (Bensimon, 2019).

For the Senegalese economist Felwine Sarr, it is a step, but it is not the rupture that is announced and it is not the revolution either, and *“people must continue to work to have an absolute monetary autonomy, especially on questions that are strategic from an economic point of view (such as what exchange rate regime, what type of parity, on what type of currency we set it) [???? CHECK] that we can go in the direction of what we believe is best for the economies of the area”* (Bensimon, 2019).

An economist and political analyst, Gilles Olakounlé Yabi also expressed reservations. In his eyes, if the ambition of some Heads of State is reduced to renaming the CFA franc in ECO, without the dominant demographic and economic power, Nigeria, and without the second West African economy, Ghana, they might as well save money and stop distracting people with contradictory announcements. *“The most important threat to the success of the single currency project today is the absence of strong political figures, heads of state and heads of regional organizations, who are trying to sell, the West-West single currency to African people with conviction and passion. Yes to a credible single currency project for all of West Africa. No to yet another shining demonstration of the lightness with which crucial decisions are made for the future of a region and its populations”* he concludes (Bensimon, 2019).

Togolese economist Kako Nouboukpo welcomes the creation of the new currency but calls for vigilance.

Senegalese Demba Moussa Dembélé believes that *“Ouattara is a Trojan horse for France in ECOWAS”* (Dembele, 2020).

According to him, the agreement, that is a way to hinder the CEDEAO project, may change the name of the CFA franc but the monetary servitude will continue. *"By maintaining a fixed exchange rate with the Euro, African central banks will pursue the same monetary policies, with the ECB as their priority objective the fight against inflation. So, the fact that foreign exchange reserves leave Paris and go elsewhere does not change anything for African countries. In fact, the agreement signed between Ouattara and Macron will perpetuate the same system in a «renovated» form. This is a very bad blow to the integration process in West Africa. The fight against monetary servitude and France's guardianship continues"* he explained (Dembele, 2020).

Co-author of the book *“L'arme invisible de la Françafrique: Une histoire du franc CFA”* (Pigeaud & Sylla, 2019) with Ndongo Samba Sylla, Fanny Pigeaud believes that the announcement of Macron and Ouattara *"kills the CEDEAO's single currency project"*, it is *“a pseudo reform to preserve the system”* (Bensimon, 2019).

Senegalese economist and writer Ndongo Samba Sylla is not convinced that Eco is the death of the CFA. According to him the ECO will not really allow to cut all the cord between France and Africa (Sylla, 2019).

The economist argues that even if the franc zone states are no longer required to pay part of their reserves to the French operating accounts, this does not make them completely independent and autonomous. He also asserts that even after decades of independence from African countries, France continues to prioritize its own interests and implements its own strategies in order to retain its influence in Africa. Sylla adds that if France really wanted to break any kind of link with Africa, President Macron, in his statement with the Ivorian President, would have simply abolished the monetary cooperation agreement that links it to the UEMOA countries. However, he simply wanted to make some changes and abolish the main element of criticism: the deposit of 50% of national reserves in the accounts in France. On this point, the expert notes a slight inconsistency, because despite this measure, France maintains its role as "guarantor" of the new currency. This shows that, in one way or another, France will continue to play an important role vis-à-vis the UEMOA countries. The economist adds that Macron's main interest was to improve his image following the criticisms expressed by other European countries in recent years. In 2019, for example, the Italian Foreign Minister, Luigi Di Maio, accused France of continuing colonial policies in its former colonies. The French president would therefore simply try to improve the «visible» aspects for which he is still criticized, without really eliminating the fundamental problems which still bind him to these countries. Another point raised by the Senegalese economist is the poor communication strategy of the two presidents (French and Ivorian) during the announcement of this important news. According to him, the whole thing would have been much more convincing and credible if the announcement

had been made by the Heads of State of UEMOA or simply with the involvement of the citizens and the main movements that committed themselves to achieve this objective, but this time again, the decision came unexpectedly from a French head of state who once again decided the fate of several African nations (Sylla, 2019).

So, in summary, according to the majority of experts, ECO does not seem to be a substitute for the FCFA, but only a currency with some different principles, with a different name, but always connected to France and Europe.

## **7.2 Alternatives to eco**

Many economists, who consider it essential to go beyond a simple reform of the CFA system and call for its abolition, have naturally reflected on the alternatives to be implemented and on the new monetary systems to be built.

Before the announcement in December 2019, we could mainly identify two positions on the question of the change of the CFA franc, which would exclude France from any link with the CFA franc.

1. CEDEAO's proposal to create a single currency for West Africa (already mentioned above which we will now deal with in more detail).
2. The creation of national solidarity currencies.

### **7.2.1 CEDEAO's proposal**

As mentioned above, before the announcement of Ouattara and Macron about the transition from the FCFA to the ECO for UEMOA countries, in June 2019 the CEDEAO chose eco as the name for its planned single currency.

The idea of a single currency for all West Africa was first introduced in May 1983, in the wake of another wider project, which provided for a single continental currency and which was conceived at the time of independence by the leaders of pan-Africanism, such as Kwame Nkrumah, and which has since been postponed several times. Initially, the idea of CEDEAO was to have the seven West African countries outside UEMOA form their own monetary union by 2015 - the West African Monetary Zone (ZMAO) - which would merge with the eight UEMOA countries in 2020. The 2015 deadline, however, was not met, so it was decided that the monetary union of 15 would be launched directly in 2020, which did not happen (Pigeaud & Sylla, 2019).

The adoption of the single currency by CEDEAO member countries would represent a step towards the integration process at sub-regional level. This would be an example that would have an extremely strong impact on other sub-regions. In particular, the CEDEAO single currency would



significantly undermine the viability of the CFA franc, following its abandonment by UEMOA member countries (Nubukpo et al., 2016).

The new currency should enable the Member States to achieve several objectives. In the first place, it will eliminate the transaction costs between the eight currencies of the sub-region, which is a bow to intra-Community trade. So, by adopting the single currency, countries would make substantial savings in foreign exchange and, at the same time, put an end to the possibilities of speculation and currency trafficking that often feed parallel markets.

The new currency would eliminate competitive devaluations, intended to gain market shares to the detriment of each other, as well as the risks and uncertainties related to exchange rates between the eight currencies of the sub-region. This would allow member countries to save significant amounts of reserves, which were used to defend individual currencies (Nubukpo et al., 2016).

In addition, it would contribute to the reduction of sovereign debt risks due to the existence of a common pool of foreign exchange reserves. This, combined with the low risks of currency devaluation and inflation, would increase the opportunities for improved access to international financing by member countries. In the light of the above, the new currency would be a powerful instrument for accelerating the process of economic integration and thus promoting the formation of a real sub-regional market, essential to initiate meaningful industrial policies and thus accelerate the structural transformation of the sub-region (Nubukpo et al., 2016).

Finally, the advent of a single currency in West Africa should be an important milestone in the process towards the continental currency envisaged by the African Union. Indeed, the African Union has initiated two flagship projects on the monetary and financial front, which are the creation of an African Central Bank (ECA) and an African Monetary Fund (AMF) whose mission should be to give more autonomy to African countries in their development process and to prepare the conditions for the creation of an African single currency (Nubukpo et al., 2016).

The African Central Bank project is part of the prospect of a monetary union, an indispensable step before the single continental currency, which should serve to consolidate a unified economic area, whose first goal will be the continental common market. It is in this perspective that the process towards the African Central Bank has been initiated. Led by the Association of African Central Banks (ABCA), the project includes nearly forty African Central Banks. An office to oversee the process and a secretariat have been set up and housed at the BCEAO in Dakar, Senegal (Nubukpo et al., 2016).

The second flagship project, along the same lines, is the African Monetary Fund (AMF), which aims to contribute to economic stability and the management of financial crises in Africa, promoting economic growth and the development of trade between the countries of the continent.

The AMF would provide a pool of foreign exchange reserves to defend the currencies of African countries and make them less dependent on international financial institutions, including the International Monetary Fund. The AMF should strengthen the coherence and credibility of the African Central Bank and Monetary Union project on a continental scale. According to Jean-Marie Gankou of the AMF Steering Committee, “*the African Monetary Fund will have to function as a clearing house, which would make the different currencies on the continent convertible directly*” (Nubukpo et al., 2016, p. 156). The Protocol of Establishment and the Statutes of the GFA were adopted on 27 June 2014, following the 23<sup>o</sup> African Union Summit, held in Equatorial Guinea.

After all, many uncertainties still remain, especially with regard to Nigeria, a member of CEDEAO. It is the region’s first economy and it has placed a condition for the birth of the single currency: the UEMOA countries must provide a divorce plan with the French Treasury (Premium Times, 2017). However, these so far have seemed reluctant to cut the monetary cord that binds them to France. The Nigerian authorities also believe that the 2020 deadline has been too ambitious, given the poor preparedness of most economies in the region. More fundamentally, Nigeria is skeptical about the gains it could make from merging into a large currency bloc. A single currency would oblige it to renounce not only to its national currency, the naira, but also to its economic independence, since monetary integration implies collective discipline and coordination of national budgetary policies (in order to make them compatible with a supranational monetary policy). This type of constraint explains the preference of the most powerful countries for national currencies. With the exception of the countries of the euro area, all the largest countries by size and demographic weight have their own national currency. At the moment, there is no state in the world with a population of over one hundred million people who do not own their own currency. Nigeria’s current population is expected to double by 2050, reaching nearly four hundred million and surpassing that of the United States (Pigeaud & Sylla, 2019).

Nigeria is not the only country to express reservations about the single currency. Even a small country like Cape Verde does not show much enthusiasm. This archipelago, more integrated with the European Union than with its neighbors on the continent, has so far chosen to stay away from the ZMAO.

In addition to these political difficulties, the economic preconditions required to the members of the future monetary union of CEDEAO constitute a further obstacle. Similar to the convergence criteria which the European Treaties impose as a condition for joining the euro, African States are asked to respect certain parameters relating to inflation rates, budget deficits and public debt (the same mentioned above). This conditions do not appear realistic: it is difficult to bring about a rapid convergence of volatile and poorly diversified economies on the basis of criteria which are largely

cyclical. Countries with high levels of inflation and public debt will be obliged, within the parameters, to adopt restrictive measures of dubious effectiveness that risk further weakening them.

In addition, it should be remembered that the UEMOA countries recorded on average the best results for these indicators. In their case, it would be pointless to give up monetary integration in favor of a single CEDEAO currency if the other countries in the region are not ready.

Finally, there is no guarantee that nominal convergence - achieving similar performance in terms of inflation public deficit, public debt etc. - leads to "real convergence", that is to achieve similar benefits in terms of economic growth, employment, etc. (as it happened in the franc zone).

Even if CEDEAO single currency project was politically feasible, it is not certain that it would be economically desirable in its present form. In fact, the monetary and exchange rate policy in this context would most likely align with the economic cycle of Nigeria, which accounts for over 70% of West African GDP (including Mauritania) and 51% of its population. It is all about the balance of power. If Germany had not been able to impose its conditions on the euro area, it would never have entered. Similarly, Nigeria would have no interest in giving up its national currency for a single currency if it did not reflect its economic needs. In addition, there is weak trade integration within CEDEAO and differences in economic specialization. The countries benefiting from the sharing of the same currency are those whose economic cycles are synchronous. Nigeria is an oil-producing country, while most CEDEAO countries are net importers (Piegaud & Sylla, 2019).

In such a context, a single currency would be justified only if it were accompanied by strong budgetary solidarity, that is, by the possibility of countries suffering asymmetric shocks to receive funds from the members of the Union in better economic conditions. This fiscal solidarity would be necessary to compensate for the transfer of monetary and exchange rate policy to a supranational level. For the time being, CEDEAO's draft single currency does not provide for any fiscal solidarity mechanism. Worse still, it provides for the introduction of rules limiting the government deficit (to 3% of GDP) and public debt (to 70% of GDP) (Pigeaud & Sylla, 2019).

However, the draft currency is not a bad idea, nor is it an unrealistic project. But it must not become a straitjacket like the CFA franc and/or a draft of the euro, with all the drawbacks of the case, and moreover without the benefit of trade and financial integration. When African countries have made progress along the path of political federalism, perhaps a single regional currency, or even a single continental currency, will be a credible project. In the meantime, however, it would be better to be pragmatic. Incidentally, even if the single currency of CEDEAO were to one day see the light of day, this would not solve the problem of the exit from the CFA franc of the CEMAC countries, which currently have no such project in place.

### 7.2.2 The creation of national solidarity currencies.

A national currency has the advantage of offering flexibility to States, which can use monetary and exchange rate policy, coordinating it with fiscal policy, to influence national economic activity (Mitchell, Wray & Watts, 2016). In principle, it is a more functional agreement than integration into a monetary union without fiscal solidarity mechanisms. Over the past two centuries, monetary unions have served mostly colonial purposes in the South of the world. With independence, they gave way to national currencies all over the world except in the countries of the franc zone and in some small island countries and some "dependencies", such as overseas territories and departments, the Vatican, San Marino, Monaco, etc.

Of course, the performance of many African countries that have their own currency has not always been convincing. But there is no example of a group of previously colonized countries of significant demographic size which has developed economically in the context of a monetary union. It should be remembered that the economic "miracles" observed in South-East Asia have all taken place in the context of countries with their own national currency.

There have been various proposals on this in recent years, about creating single currencies in the franc zone.

In this sense, Mamadou Diarra put forward an idea (Diarra, 1972). Starting from the observation that the CFA franc is a "*convenient solution*" and that it "*does not constitute a real currency, but only a sub-multiple of the French franc to which it is connected*", Mamadou Diarra took a position against that literature that insists more on the easements of independent monetary policy than on the greater opportunities it offers to govern effectively. In his paper, published in 1972, he proposed the adoption of national currencies issued by national central banks according to parities in line with economic fundamentals. These national currencies would have a fixed but adjustable common convertible unit of account registered with the IMF. Instead of the operational account, advance accounts would be negotiated. Each national currency could be used in its country of issue. Exchange controls would be established between monetary union and the rest of the world. But within it, the exchange of currencies would be free and unlimited on the basis of the parities of each national currency with the common currency which, serving only as a unit of account, could only be used for the settlement of transactions. At the union level, a "West African reserve fund" or a "West African payment union" would be created. This would have at its disposal the currency reserves of the monetary union. The contributions of each Member State would be individualized and expressed in the common unit of account. The fund's role would be to manage the common unit of account and to represent African countries in international organizations such as IMF and the World Bank. It could grant loans to those Member States which so request and, where appropriate, an adjustment of the

parity could be envisaged. Mamadou Diarra's proposal has the advantage of allowing monetary integration between the member countries of the two monetary blocs of the franc zone, then extending it to other countries in a pan-African perspective (Diarra, 1972).

Resolute supporter of the "monetary liberation" of Africa, Joseph Tchoundjang Pouemi also defended, in 1980, the idea of monetary integration within «*an area composed of politically free countries, each with its own currency, but bound by fixed exchange rates and the free movement of capital and possibly by the pooling of currency reserves*» (Tchoundjang Pouemi, 2000).

All these ideas should be updated today to reflect the imperative of African integration and the need to put an end to any paternalist or imperialist protection. A system of national currencies pegged at fixed but adjustable parities to a pan-African unit of account (which at first could be regional in nature and then extended to the rest of the continent), under the supervision of an African Monetary Fund in which a more or less significant percentage of African countries' currency reserves is centralized, appears today as the wisest, most pragmatic and most promising solution. The existence of a common unit of account and the limitation of exchange rate variability would facilitate trade and strengthen economic integration (Pigeaud & Sylla, 2019).

Of course, this type of monetary integration will be more likely to succeed if it is accompanied by complementary economic policies conducted jointly and aimed at strengthening local productive capacities and intra-African trade. In the case of the CEDEAO, food and energy (oil and gas) represent for most Member States between 25 and 60 % of the value of their imports of goods (UNCTAD, 2017). Yet, West Africa has everything it needs to ensure its self-sufficiency in food and energy. By ending their dependence on these two fronts, West African countries would release a significant part of their foreign currency reserves for other uses, with a more sustainable economic impact. This would help to reduce their financial dependence on the rest of the world. At that point, they would be in a position to have more flexible exchange rate regimes, which would accompany their industrialization efforts. This applies not only to West Africa, but to the entire continent (Pigeaud & Sylla, 2019).

## CONCLUSION

*“Seventy-five years after its creation, the CFA franc remains one of the most tenacious survivals of colonization”* claimed the economist Moussa Dembele.

The history of the currency, analysed in this thesis, proves that a very strong relationship links the countries that use the CFA franc to their former colonizer, explaining why France still remains today the privileged partner of the exchanges. Moreover, the policies that accompany the functioning of the currency have mainly been used to model a mechanism of economic dependence.

Even if it has lost its original definition, the acronym CFA helps to remind the franc zone countries the colonial origin of the currency. And as if that were not enough, the foreign exchange reserves are kept in the French treasury, the currencies printed in Auvergne (in France) and France has a right of veto within the administration of the central banks of the franc zone. All this contributes to reinforce this neo-colonial perception maintained in the collective consciousness.

By analysing the functioning of the CFA franc, it can be concluded that the CFA system has neither stimulated trade integration between its members, nor their economic development, nor their economic attractiveness towards foreign investments but French ones. On the contrary, it has deprived the member States concerned of the possibility of pursuing an autonomous monetary policy, has paralysed productive dynamics through the limitation of bank credits and has penalized the price competitiveness of local productions through structurally overvalued exchange rates. In its 70 years of existence, the only tangible benefit of the CFA franc has been a low inflation rate.

If the CFA franc continues to exist, it is because some actors benefit from it. The franc zone provides French companies with privileged access to African markets and the French State with reliable sources of supply of raw materials payable in their own currency. All this with the more or less active complicity of the African leaders who came to power with the support of the Elysée, developing a culture of dependency.

Franc CFA survives therefore because it satisfies both French interests and those of some African ruling classes.

On the other hand, most of the populations of the African countries are losing out, but in recent years they have become aware of the need for economic independence in order to start a process of economic development, and they are mobilizing to make that happen.

However, in order for this nascent popular movement to translate into real change, it would be necessary that the political class of the franc zone countries make this battle its own battle.

Few political groups aim to put an end to this colonial monetary system, such as the party "Parti Comores Alternatives", whose president Saïd Ahmed Saïd Abdillah, in 2017, declared: *"Currency is not only a part of our national sovereignty. It is also the oxygen of our economy. There*

*can be no development without the control of our monetary policy. No country emerged without planning its own monetary policy"* (Financial Afrik, 2017). On the French side, some left-wing parties have taken a stance on the issue in recent years, particularly in view of the French presidential elections in 2017, calling for the end of the CFA franc (Pigeaud & Sylla, 2019). However, they should move from words to action.

Of course, the struggle for economic independence, and in particular for monetary sovereignty is complex, as it is difficult to change overnight the economic, trade and financial relations established over several decades. This is however an inescapable struggle without which Africa will remain dominated and will witness as powerless the plundering of its immense resources and the concomitant accentuation of its impoverishment.

The call for a break with the franc zone and the CFA franc stems from the need to change the development paradigm, after the failure of the neo-colonial model that impoverished African countries and following the profound transformations that have taken place in the global context for more than half a century. In light of these changes, the United Nations Economic Commission for Africa and the African Union are calling on African countries to explore other avenues of development and to put an end to the models imposed from outside since the «independence» and whose failure has cost Africa dearly (UNECA, 2011).

Of course, the abolition of the franc zone and its mechanisms will not solve all the economic problems of the countries that are part of it, but it is nevertheless a necessary step for these countries to develop economically and socially.

The true independence of the African continent will begin with the control of its own currency, a guarantee of financial autonomy that leads to true economic independence. *“It is time for the CFA to pass entirely into the hands of Africans”* (Nubukpo & al, 2019).

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