CHAPTER 7

Towards Monetary Sovereignty

The Colonial History of the CFA Franc and How to Transition to the Eco

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7.1 INTRODUCTION

On 21 December 2019 at a joint press conference in Abidjan in Côte d'Ivoire, France's President Emmanuel Macron and Côte d'Ivoire's President Alassane Ouattara announced the impending end of the CFA franc in the Member States of the West African Economic and Monetary Union (WAEMU), and its replacement by the new eco currency. The effect of this announcement can be likened to a resurfacing of repressed feelings in psychoanalysis.[1] The outspoken discussions about currency in the African franc zone that followed opened the floor to every possible rhetorical excess imaginable, especially from those 'eleventh hour' campaigners who are only now finding out that the CFA franc is not a currency compatible with the emergence of francophone Africa.

However, while we must not stop applying the pressure towards ending the CFA franc, which circulates in fourteen African countries divided into two monetary zones in West and Central Africa,[2] we must

I wish to thank Hanna Eklund.

[1] Members of the WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

[2] The African franc zone consists of: the eight Member States of the WAEMU. These countries use the West African CFA franc (XOF); the Economic and Monetary Community of Central Africa (CEMAC), which consists of six Member States: Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon. These countries use the Central African CFA franc (XAF); and the Union of the Comoros, which uses the Comorian franc (KMF).

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also provide a realistic outline of what transition to the replacement currency, the eco, would look like for West Africa. The eco's (re)birth was announced on 29 June 2019 in Abuja in Nigeria by the Summit of Heads of States and Governments of the Economic Community of West African States (ECOWAS);[3] thus, a few months prior to the contentious announcement in Abidjan. For France and the European Union (EU), the process which is now unfolding is a test of whether or not they sincerely and definitively want to put the CFA franc to rest.[4]

In this chapter, I briefly outline the colonial economic history of the CFA franc, culminating with the role currently played by the French Treasury and the European Central Bank in the economic life of the African franc zone. I then outline the debate about how to end the CFA franc and the four most plausible options to successfully gather together those fifteen ECOWAS Member States which have been invited to the eco party.[5] Finally, I outline my view of how to successfully end the CFA franc and implement the eco, and how this will benefit the economic lives of the people of West Africa.

7.2 THE COLONIAL HISTORY OF THE CFA FRANC

The franc zone was created by France in 1939 and included fifteen African territories which were part of its colonial empire. Since its inception, the zone has been marked by a monetarist doctrine emphasizing stability and the primacy of the fight against inflation. The franc zone has a currency, created on 26 December 1945, the CFA franc. Originally, CFA stood for *franc des Colonies Françaises d'Afrique* (franc of the French Colonies of Africa), which with independence from colonial rule became the *franc de la Communauté Financière Africaine* (franc of the

[3] Final Communiqué of the 55th ordinary Session of the Authority of ECOWAS Heads of State and Government (Abuja, 29 June 2019). The fifteen members of ECOWAS are Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. ECOWAS was founded by the Treaty of Lagos in 1975. In 1999 ECOWAS agreed to work towards creating a single currency, the eco, short for ECOWAS.

[4] K. Nubukpo, M-Z. Belinga, B. Tinel and D. M. Dembélé, *Sortir l'Afrique de la servitude monétaire: à qui profite le franc CFA?* (Paris: La Dispute, 2011).

[5] Thus, not including the six Member States of the CEMAC.

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African Financial Community). Imposed on Africans as part of colonization, the monetary situation in francophone Africa follows the contours of the colonial and postcolonial history of the continent.

At the end of the Second World War, after the ratification of the Bretton Woods agreements, the franc zone faced the problem of setting a new parity for the franc at competitive rates in order to help the resumption of exports. For most of the war, the official rates of the franc in relation to the US dollar and the pound sterling remained those adopted in September 1939. However, between 1939 and 1944, prices increased by 150 per cent in France, while they grew by less than 30 per cent in the United States and the United Kingdom. Therefore, a deep devaluation was necessary to restore the balance between French prices and foreign prices.

The CFA franc was thus born at the time of the first devaluation of the metropolitan franc carried out on 26 December 1945. The parity of the CFA franc remained fixed in relation to the metropolitan franc (metro) for forty-six years between the devaluation of 17 October 1948 and the devaluation of 11 January 1994, regardless of economic variations and institutional changes such as the franc zone countries' independence from colonial rule.

In fact, the 50 per cent devaluation of the CFA franc on 11 January 1994 is a crucial, and telling, episode in the history of this currency. This episode brought the inequities of the construction and arrangement of the CFA franc into sharp relief.[6] The devaluation measure was not desired by African governments, who saw major political risks in it, in particular a significant loss of purchasing power of their populations following high post-devaluation inflation. For the French Ministry of Finance, devaluation was, however, foremost a question of preserving the historic characteristics and mechanisms of the governance of the franc zone: the role of the French Treasury Department in its governance, the fixed parity with the franc, and the interests of French companies established in the African franc zone.

[6] The French president François Mitterrand, in the name of privileged relations with certain African heads of state, was hostile to a devaluation, but he finally accepted the idea, after discussions with his prime minister Édouard Balladur.

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Creating as it did a feeling of having been abandoned, the devaluation of the CFA franc in January 1994 marked the beginning of the distancing of the African franc zone countries from the French fold, and the end of the French political and economic monopoly.

Yet, the legal and financial links between the CFA franc and France, and from 1999 France and the EU, have proven resistant to reform.[7] The links between the African franc zone and what has since 1999 been the eurozone have four main characteristics: the fixed parity or fixed exchange rate between the CFA franc and the euro; the total guarantee by the French Treasury of convertibility between the CFA franc and the euro; the freedom of movement of capital between the African franc zone and eurozone;[8] and finally the centralization of foreign exchange reserves, which means that countries whose currency is the CFA franc must deposit 50 per cent of their foreign exchange reserves in the French Treasury, which pays interest for these deposits, a principle called the centralization of reserves.

Despite the successive reforms of 1973, 2010, and 2020 of the institutions and functioning of the WAEMU, created in 1962 as a management body for the CFA franc in West Africa, the intangibility of a fixed parity pegged to the euro has always been maintained and encoded in various conventions concluded between France and the states of the franc zone.[9]

In 2021, seemingly prompted by the currency reform plans in West Africa and transition to the eco, the EU reaffirmed its own involvement and decision-making power regarding the CFA franc's fixed parity to the euro. A Council Decision was issued on 25 January 2021, which amended the original 1998 Council Decision concerning exchange rate matters relating to the CFA Franc.[10] Article 5 of the 2021 Council

[7] For the original EU decision on the transfer from the franc to the euro, see Council Decision of 23 November 1998 concerning exchange rate matters relating to the CFA Franc and the Comorian Franc, OJ 1998 L 320.

[8] The twenty (out of twenty-seven) EU Member States composing the eurozone are: Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

[9] The same is true of the CFA franc in circulation in Central Africa.

[10] Council Decision of 23 November 1998 concerning exchange rate matters relating to the CFA Franc and the Comorian Franc, OJ 1998 L 320 and Council Decision (EU)

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Decision concerns agreements between France and WAEMU and CEMAC on 'exchange rate matters relating to the CFA franc' and reads: 'Any plans to change the nature or scope of the present agreements, either by amending or by replacing them, shall be submitted by France to the Commission, the European Central Bank and the Economic and Financial Committee. Such plans shall require the approval of the Council on the basis of a recommendation from the Commission and after consultation of the European Central Bank.'

African and French ruling elites have always invoked the virtues of stability to justify the intangibility of fixed parity with the franc and later the euro.[11] However, this intangibility offers these ruling elites advantages in terms of repatriation of capital from the franc zone to the eurozone: African leaders benefit from facilities to deposit their money in eurozone banks and are encouraged to massively import goods and services from the rest of the world, rather than stimulating regional markets. In return, eurozone companies established in the African franc zone can easily repatriate their profits to the eurozone due to the guaranteed convertibility of the CFA franc into euros and the free movement of capital between the two zones.

Economically speaking, four main criticisms have from the outset been addressed to the franc zone and its corollary, the CFA franc. The share of intra-community trade is low (15 per cent compared to 60 per cent in the eurozone). Price competitiveness is hampered by a CFA franc which, pegged to the euro, appears to be a 'strong' currency. However, this 'strength' reflects the eurozone, not the franc zone area. The primacy of the fight against inflation, in line with the economic orthodoxy of the European Central Bank,[12] explains the absence of a growth objective in the missions of Central Banks in the franc zone. As a result, the financing of the economy remains below the needs of the economies in the area.

2021/357 of 25 January 2021 amending Decision 98/683/EC concerning exchange rate matters relating to the CFA franc and the Comorian franc, OJ 2021 L 69.

[11] The same positions have been promoted by public officials of the EU. See M. Hallet, 'The role of the euro in Sub-Saharan Africa and in the CFA franc zone' (2008), Economic Papers 347, European Commission.

[12] Compare the statement in Ibid., p. 17: 'Procedures of macroeconomic surveillance in the CFA franc zone are clearly inspired by those in the EU.'

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From a political and societal point of view, the preservation of the CFA franc is increasingly perceived by African youth and diasporas as a striking illustration of the strong economic and political outsourcing of responsibility and vision that characterizes the African economies and societies of the franc zone. A new generation of West Africans see the states of the franc zone as incapable of deciding on their monetary policy, proof of which is that these states delegate to the former colonial power one of the crucial elements of sovereignty – the power to mint money. CFA notes and coins have since 1945 been made exclusively in Chamalières, in France, by the Bank of France.

The populations living in the franc zone, harassed by authoritarian and corrupt governments, and by indecent living conditions, now aspire to a democratic revival. They rebel against colonial symbols. The fact that CFA notes and coins are made in France symbolically and substantially undermines the idea of sovereignty defended by the African leaders of the franc zone. Furthermore, the two main Central Banks of the franc zone, namely the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC) obtained their independence from their respective franc zone states in 2010. However, the BCEAO and the BEAC must go through the French Treasury, that is to say the French Ministry of Finance, as the guarantors of the fixed parity between the CFA franc and the euro.

Considering this history, it is not hard to understand why the establishment of a new eco currency in place of the CFA franc in West Africa is the subject of passionate debate. Just think of Marcel Mauss's characterization of money as 'total social facts'.

7.3 THE OPTIONS

7.3.1 THE ECO-CFA. The idea of the eco as essentially an avatar of the CFA franc – the eco-CFA – places its hopes in a progressive enlargement of the WAEMU to those economies of the ECOWAS with the same export profile of agricultural primary resources, namely coffee, cocoa, and cotton. The eco-CFA schema, which seems to have inspired the Abidjan declarations of December 2019, is founded on the respect of nominal criteria of convergence and on the idea that continuation of the fixed

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exchange regime with the euro is desirable. According to this schema, the centralization of exchange reserves is fundamental and every country would put together its reserves to increase the basket of reserves. This option therefore presumes and depends on a strong political solidarity between the current Member States of the WAEMU.

Importantly, the role of external guarantor, currently played by France within the CFA franc's institutional context, has a strong political dimension: in both theory and practice it has been seen as the foundation of the system's stability. If the eco retains the principle of the centralization of reserves, but shifts their management to a different institutional framework, then the monetary sovereignty passes from France to the WAEMU and gradually to the ECOWAS.

Then there is the question of fixed parity: much work was done a few years ago to propose a system of flexible exchange rates, or even better adjustable rates, as they are based on an index calculated using the most recent basket of currencies. The Abidjan announcement that the exchange rate pegged to the euro would be maintained during the transition period is the real point of contention between those proponents of a flexible currency (the ECOWAS heads of state) and those of an eco-CFA (Côte d'Ivoire and Senegal). Tying the eco to the euro would mean a loss of competitiveness for the eco economies, while leaving the eco flexible would enhance their competitiveness. The idea of continuing to peg the eco to the euro therefore represents a significant weakness of the eco-CFA proposition.

7.3.2 A REAL ECO. A real eco founded on real convergence would mean a currency founded on GDP per capita, and no longer, as in the case of the eco-CFA, a currency founded on the respect of nominal criteria of convergence. In this set-up, the economies of the ECOWAS would be obliged to converge towards the leading trio: Cape Verde, Nigeria, and Ghana. The eco would have a flexible exchange regime governed by an inflation targeting framework and would not be pegged to the euro. The dynamic of convergence would therefore be quite different and the WAEMU Member States would lose their status of being the star pupils of convergence; in other words, their lead roles in the process of setting up the eco would be lost to Nigeria.

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The question is whether Nigeria, a real heavyweight of the ECOWAS (70 per cent of GDP and 52 per cent of the population), is willing to take on the role of being the ecozone's powerhouse? Why would Nigeria now accept the role of the ECOWAS's last resort lender, a role which it did not wish to play during the setting up of the second West African Monetary Zone (WAMZ) in 2002? Perhaps even more crucially, why would it agree to abandon its currency, the naira, in the current context, a context marked by the use of money printing to resolve internal tensions in the Nigerian federation?

7.3.3 THE ECO-NAIRA. In the eco-naira scenario, we would see a return to the initial philosophy behind the WAMZ. On 20 April 2000 in Accra in Ghana, six West African countries (Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone) announced their intention to create a second monetary zone in West Africa with the eco as currency, alongside the CFA franc of the WAEMU. The project planned on subsequently fusing this new WAMZ monetary zone with the WAEMU, to reflect the borders of the ECOWAS. In April 2002, the WAMZ was set up, and each country committed to maintaining its exchange rate within a 15 per cent fluctuation band against the US dollar.

Ever since then, however, anything concerning the set-up of the single currency has been met with palpable inertia. Following the announcement in Abidjan, which declared that the eight French-speaking West African countries of the WAEMU would end the CFA franc and replace it with the eco, the WAMZ Council of Ministers on 16 January 2020, in a sharply formulated communiqué, accused the WAEMU states of violating the spirit of the eco currency as announced in Abuja by the Summit of Heads of States and Governments of the ECOWAS.[13] The statement of Abidjan, it should be noted, did not include the seven ECOWAS countries which are primarily anglophone. Disagreements along these lines could end up creating an 'eco-naira', stewarded by a Nigeria stung by the francophone initiative of the 'eco-CFA'.

[13] Communiqué, Extra-Ordinary Meeting of the Ministers of Finance and the Governors of the Central Banks of the West African Monetary Zone on the Ecowas Single Currency Programme, 16 January 2020.

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Nevertheless, the final communiqué of the 59th ordinary session of the ECOWAS Heads of State and Government, which was held in Accra on 19 June 2021, specifies that the decision was taken 'to adopt the Convergence and Macroeconomic Stability Pact between ECOWAS Member States whose convergence phase covers the period from 2022 to 2026 and the stability phase from January 1 2027', and that it takes note of 'the Roadmap for the launch of the Eco by 2027 and instructs the Ministerial Committee to continue working to resolve all outstanding issues'.[14]

7.3.4 A COMMON (BUT NOT SINGLE) ECO CURRENCY. While a single currency is always a common currency, the opposite is not necessarily true. The history of the European Payments Union (EPU) between 1950 and 1957, which predated the Treaty of Rome's establishment of the European common market, provides an informative example of how an economic agreement that falls short of a single currency can nevertheless strengthen the integration process between countries. In so doing, such a lighter form of monetary cooperation can prepare the conditions for the transition to more intense forms of integration. In 1960, the Senegalese economist Daniel Cabou, who later became the first secretary general of the BCEAO, proposed using the example of the EPU to set up an 'African Payments Union', an idea which was taken up nine years later by the Egyptian economist Samir Amin in a report to Nigerian president Amany Diori.[15]

How can we reinterpret the idea behind the EPU as a roadmap for the eco? By imagining that countries which are not yet able to join the single currency could nevertheless bind themselves to it through exchange rate agreements. Mechanisms for the symmetrical absorption of trade imbalances could, like the same mechanisms set in motion during the EPU, help to recirculate surpluses within the ECOWAS zone, by encouraging

[14] Final Communiqué of the 59th ordinary session of the ECOWAS Heads of State and Government (Accra, 19 June 2021).

[15] See further S. Amin, 'Underdevelopment and Dependence in Black Africa: Origins and Contemporary Forms' (1972) 10 *Journal of Modern African Studies* 503; S. Amin, *Neocolonialism in West Africa* (New York: Monthly Review Press, 1974); and S. Amin, *Delinking: Towards a Polycentric World* (London: Zed Books, 1990).

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processes of specialization between economies which are the basis for an increase in intra-zone trade, which is in turn one of the major economic and political objectives of the integration process.

7.4 TOWARDS THE ECO AND MONETARY SOVEREIGNTY

In May of 2021 academics, politicians, and other interested parties met for the General Assembly on the Eco (*Les États Généraux de l'Eco*), which was held in Lomé, Togo, to discuss the end of the CFA franc and the introduction of the eco for the whole of the ECOWAS. The General Assembly on the Eco favoured the idea of a common, but not single, currency as a starting point for the eco currency project. In a final declaration of the assembly, a roadmap for the implementation of the eco was formulated around four pillars: the objectives of the currency reform; the formulation of convergence criteria; the system which will be required; and the mode of implementation. The principles of this declaration represent the most compelling structure for the introduction of the eco, and the end of the CFA franc.

7.4.1 THE MAIN OBJECTIVES. Most importantly, the political process towards the adoption of a common eco currency responds to a legitimate demand for the establishment of full monetary sovereignty of the fifteen ECOWAS Member States. This principle has been articulated since the decision of the ECOWAS Heads of State Summit on 29 June 2019 in Abuja.

The adoption of the eco forms part of a larger post-Covid agenda of reconquering fundamental sovereignty in several crucial areas across the West African region: food, health, trade, finance, politics, and security. The eco currency project should be capable of involving all the ECOWAS states, whatever their differences, by guaranteeing the flexibility necessary to absorb the impacts of external shocks, which may diverge between states.

The decision to exit the franc zone, which was announced in Abidjan at the end of 2019 by the eight WAEMU states, notably addressed the question of the repatriation of the exchange reserves from the operations account domiciled in France. This essential delinking of the involvement of the French Treasury is an important part of the eco currency

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reform. Finally, the eco project should aim to maximize the potential for increased and strengthened economic integration in the region.

7.4.2 CONVERGENCE CRITERIA. The eco currency should be constructed so as to take into consideration the criteria of a good exchange rate policy, namely financing essential imports, supporting exports, promoting local credit, protecting 'emerging sectors' with high employment potential, and offsetting the negative impacts of external shocks. In terms of short-term convergence (price, debt, deficit), it is necessary to set minimum macroeconomic criteria for membership, or, in other words, an entry ticket. However, the absorption of differentials (price, debt, deficit) is not a prerequisite, but a medium-term objective, which will be easier to obtain with an adequate economic policy.

In fact, the inflation constraint must be loosened (4–8 per cent) in order not to restrict the potential for structural transformation of the ECOWAS economies. Moderate inflation stimulates credit, because it alleviates the debt for borrowers and thereby rewards risk and innovation. In doing so, structural convergence is fundamental, and sectoral policies in favour of agricultural and industrial value chains with a regional profile must be implemented in a manner which complements the introduction of the eco.[16]

7.4.3 THE FUTURE SYSTEM OF GOVERNANCE. This new monetary system will be built on a new currency, *sui generis*, distinct from existing currencies in the ECOWAS. A Central Bank would be responsible for conducting the monetary and exchange rate policy of the Member States of the ecozone. The pooling of foreign exchange reserves, repatriated from the French Treasury, will be the basis of solidarity between the ECOWAS Member States. In the transition period, solidarity will be strengthened on a political and institutional basis. A cooperation mechanism will be put in place to mitigate differences in opinion in terms of governance and facilitate economic convergence.

[16] For further details on this point see K. Nubukpo, 'The Forgotten Farmer: Redefining Africa's Future through Ecological Transition and Endogenous Solutions' (2023) 6 *Development Cooperation Review* 35.

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Furthermore, the definition of the future eco currency will be based on a basket of currencies representative of the main trade flows in the ecozone, namely the euro, the US dollar, the yuan, and the pound sterling. The exchange rate of the common eco currency will be flexible but administered by the Central Bank. An exchange rate agreement will be concluded between the parties for the anchoring of their existing currency to the eco currency, which will serve as a pivot. Countries which are not yet able to join the eco currency could nevertheless bind themselves to it through exchange rate agreements. The principle of a corridor will be adopted within which existing currencies will be able to float with a fixed fluctuation margin monitored by the ECOWAS monetary authority. Finally, in the long term, the transition from the common currency to the single currency will be considered.

7.4.4 IMPLEMENTATION. In terms of implementation of the eco currency, particular attention will be paid to the prospects for monetary digitalization, which is already central in developed economies but which could prove even more strategic in the African context, characterized by low banking use among populations.

To initiate the transition to the common eco currency, a first pool of states meeting the minimum convergence criteria, which will need to be continuously evaluated, will begin discussions. Subsequently, new memberships in the eco project should be encouraged.

The abandonment of the French Treasury guarantee granted to the WAEMU states will be finalized. In fact, confidence in the eco currency should instead be based on new endogenous safeguard and credibility mechanisms. Furthermore, during the transition and learning phase of exchange rate mechanisms, attention will focus on fiscal and budgetary rapprochement and the stimulation of regional financial markets.

Clearly, behind these questions relating to the choices on how to operate the new eco currency, in particular the future parity and its relation to a basket of currencies, on the level of flexibility of the exchange rate, or on the 'correct' currency allocation regime that must be adopted, hides another crucial question, namely the necessity to initiate the structural transformation of West African economies.

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To bring about real change, the proposals to support the transition to the eco currency must be technically sound, economically motivated, politically accepted, and based on measures whose impacts and future risks are carefully assessed beforehand.[17] Recognizing the advantages of regional monetary integration and sharing these ideas to generate support from the populations of West Africa is fundamental to the success of the eco currency.

7.5 A TEST OF CREDIBILITY AND A TEST OF SINCERITY

Several options are thus on the table for West African decision makers. The declaration coming out of the General Assembly on the Eco held in Lomé in 2021 provides, in my view, the most compelling option for how to end the CFA franc in West Africa and introduce the eco for the whole of ECOWAS.[18] There is political will in the region. In March 2025 the 11th ECOWAS Convergence Council meeting was held in Abuja, which brought together top financial leaders including ministers of finance and Central Bank governors to further discuss plans for an eco currency launch by 2027.

The creation process of the eco appears to be a true credibility test of West African political vision and governance. For France and the EU, this process might be more a true sincerity test of their readiness to put the CFA franc, and its colonial history, to rest.

[17] See further, B. Coriat, S. Leyronas and K. Nubukpo (eds.), 'L'Afrique en communs : tensions, mutations et perspectives' (2023) Washington DC: Publication of the French Development Agency/Banque Mondiale and K. Nubukpo, *Une solution pour l'Afrique : du néoprotectionnisme aux biens communs* (Paris: Editions Odile Jacob, 2022).

[18] See further K. Nubukpo (ed.), *Demain la souveraineté monétaire? Du Franc CFA à l'Eco* (Paris: Fondation Jean Jaurès-Editions de l'Aube, 2021).

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