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Robert Kappel*

Future Prospects for the CFA Franc Zone

The CFA Franc Zone, with 14 member countries in West and Central Africa, is now entering a phase of restructuring. This is clearly indicated by the debates now occurring in the EC, within the French government, in international organizations such as the World Bank and IMF, and in the CFA Franc Zone countries themselves. What have the benefits and drawbacks of the CFA Franc Zone been? What form might future monetary cooperation between Europe and Africa take?

The monetary cooperation which has been maintained between France and a number of African countries for over 40 years via the CFA Franc Zone¹ is now beginning to show signs of cracking. Various experts have lately been commenting on trends in the zone, expressing criticisms, analysing advantages and disadvantages of monetary cooperation, and pondering future prospects.² The Commission of the European Communities has so far been reticent in voicing any of its own views, and this may be connected with the fact that any linking of the CFA franc to the ECU raises the question of how the associated costs, which have been met by France in the past, should be dealt with. At this time of change in the EC, with numerous new members likely to join and a trend towards stronger involvement in Eastern Europe, economic cooperation with African countries is not exactly top of the agenda at present. Above all, however, the EC is likely to deal less intensively with the question of monetary cooperation with Africa in the first instance because France will maintain its role hitherto in the future. Article 109 of the Treaty of Rome (agreements with third countries; currency agreements) does in principle allow individual member states to conclude their own international agreements. In other words, the status quo could be maintained.

The purpose of this article is first to survey the advantages and disadvantages of the CFA Franc Zone in the past before examining the conditions which need to be fulfilled for a redefinition of its role, in the light of Africa's current economic problems. Finally, it will set out the "pro"

and "con" factors associated with Afro-European (or EC-ACP) currency union.³

Convertibility

The CFA franc has been firmly pegged to the French franc since 1948 (at the rate of FCFA50 = FFr1). The FCFA is readily convertible into French francs at any time, making it a convertible currency on the world scene. The structure of the CFA Franc Zone involves two different currencies, and two parallel institutional arrangements as follows:

□ The West African monetary union UMOA (*Union Monétaire Ouest-Africaine*) has seven member countries,

¹ CFA stands for *Communauté Financière Africaine* in the West African countries, and for *Coopération Financière en Afrique Centrale* in those of Central Africa, whereas the original source of the abbreviation during the colonial era was *Franc des Colonies Françaises d'Afrique*. All CFA countries are signatories to the Lomé Convention between ACP (African, Caribbean and Pacific) countries and the European Community.

² Cf. in particular the following recent literature: Daniel C. Bach: Pour une union monétaire euro-africaine, in: *Le Monde*, 14th January 1992; James M. Boughton: The CFA Franc zone: currency unit and monetary standard, IMF Working Paper WP/91/133, Washington D.C., December 1991; Robert Kappel: Währungszone Afrika-Europa? Die Zukunftsperspektiven der Franc CFA-Zone in Afrika, *Berichte und Analysen Dritte Welt*, No. 5, University of Bremen 1993; Cord Jakobeit: Die CFA-Franczone vor dem Ende?, in: *Afrika Jahrbuch* 1990, Opladen 1990, pp. 71-78; Roger Peltzer: The proposed European Currency Union and the European political union: Stimulus for African unity and regional integration, Conference on European-African relations, unpubl. paper, Ebenhausen, 22nd-27th May 1992; Christopher E. Lane and Leila Page: Differences in economic performance between Franc zone and other sub-Saharan countries, ODI Working Paper 43, London 1991; Ibrahim Elbadawi and Nader Majd: Fixed parity of the exchange rate and economic performance in the CFA zone, World Bank Policy Research Working Papers, WPS 830, Washington D.C. 1992; *The Courier*, No. 117, 1989: "Currency and Banking".

³ The Lomé IV Agreement between the EC and the ACP countries does not include currency cooperation.

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namely Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo. The joint central bank for these countries is the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO).

□ The Central African currency union formed around the *Banque des Etats de l'Afrique Centrale* (BEAC) as the joint central bank. Its members are Equatorial Guinea (the only CFA country not formerly under French colonial rule), Gabon, Cameroon, Congo, Chad and the Central African Republic.

The monetary cooperation between France and the above African countries is a unique case in post-colonial relations. France controls monetary and currency policies, while the CFA member countries each print portraits of their own presidents on their particular banknotes. Rolf Knieper terms this the denationalization of money and monetary policy and describes the CFA Franc Zone as "the contractual renunciation of a portion of sovereignty... The currency union is quite evidently a legacy of colonial relations".⁴ However, Knieper also rightly emphasizes that monetary unions are by no means entirely a post-colonial phenomenon, as there are also a number of developed countries – such as certain EC member countries – which have renounced national monetary sovereignty.

In other cases, the International Monetary Fund and the World Bank exert a powerful influence over individual nation states' monetary policy, as exemplified by structural adjustment programmes.

Yet the cooperation between France on the one hand and West and Central Africa on the other is more than just a currency model, for it forms part of France's economic, political and military/strategic cooperation in the continent of Africa. In all CFA countries, France's influence is very great. In the past, this cooperation functioned as a development-policy model in which key decisions were taken in France but the countries concerned had a relatively stable currency environment, which in turn secured economic growth comparing favourably with that achieved by the non-CFA countries in Africa. Nevertheless, the economic crisis of the last few years has now called this basis of economic cooperation into question.

The key feature of the CFA Franc Zone is the currency's convertibility into French francs. Its free exchangeability effectively makes the CFA franc a "hard currency". Conversion takes place via clearing accounts (*comptes d'opérations*) held by the BEAC and UMOA at the French

finance ministry. According to an agreement made in 1973, the BEAC and UMOA are required to deposit two-thirds of their convertible currency reserves arising from trade in goods and services with, and capital transfers from, countries outside the franc zone in their clearing account at the French "Trésor". In return, the treasury in Paris meets all of the internal and external obligations of the UMOA and BEAC. The following regulations were laid down in order to secure stability in the value of the CFA franc:

- the BEAC and UMOA are not permitted to lend funds to their respective member countries in excess of 20% of government income;
- if the current account is continually overdrawn so as to impose a burden on the treasury, measures must be taken to curb credit expansion and hence curtail money supply and the growth of demand until equilibrium has been restored.

Past Experience

As has rightly been observed, not only have these rules been substantially kept to in the past, but before the economic decline of the CFA countries set in (in about 1986) these countries did in fact make a positive contribution to the clearing account. This stable trend is manifested in a relatively low inflation rate in the CFA countries. Whereas many other African countries have had to carry out currency devaluations on a massive scale because of their high inflation rates and as part of their structural adjustment programmes, the CFA franc-French franc parity has remained constant.

It is undeniable that French companies in particular profit from these "reserved hunting grounds" (*chasse gardée*). African companies, on the other hand, have a difficult time getting established in the market because of the competitive advantages enjoyed by foreign firms. Despite this, the economic stability and the positive investment climate in CFA countries have also led to healthy investment activity by domestic companies in the past. Even when the economic crisis they have suffered in more recent times is included in the comparison, the average performance of the CFA countries remains better than that of non-member African countries. However, it has not proved possible to avoid the expatriation to Europe of profits from smuggling, gained, for example, by selling heavily subsidized oil and manufactured goods from Nigeria (the continual devaluations of the Nigerian naira⁵ in recent years have made petrol and other Nigerian export products cheaper when expressed in CFA francs⁶).

Although the fixed parity provides stable conditions for French and foreign investors which do not exist in other

⁴ Rolf Knieper: *Nationale Souveränität. Versuch über Ende und Anfang einer Weltordnung*, Frankfurt am Main 1991, p. 43 (our translation).

African countries, the CFA countries are exposed to the fluctuations between the French franc and other hard currencies. The French franc has been very strong against the US dollar in recent times, for example. The effect for the CFA countries is that their own CFA franc has a higher value relative both to other African currencies and to the dollar. The "overvalued" exchange rate vis-à-vis non-CFA countries primarily benefits the élites of the zone's member countries, who have a luxurious lifestyle with many imported goods. Capital flight is also facilitated by currency overvaluation.⁷ "A high Cameroonian official is at present paid several thousand deutschmarks per month, which he can at any time change into French francs. His Nigerian colleague in the same function must manage with an income which is only one tenth of that."⁸

Debt Crisis

The fact that their own franc is pegged to the French franc has not prevented the CFA countries, too, from accumulating large foreign debts. A major part in that has been played by the economic crisis of the past ten years:⁹

- Most CFA countries had lower GNP growth than other African countries during those years.
- Per capita incomes have fallen since 1987, meaning a decline in the real standard of living for people in the franc zone.
- Capital flight from the CFA Franc Zone has increased markedly. As a result, the share of GNP accounted for by real investment fell from 24% in the 1973-1981 period to 19% in 1982-1989.
- The rate of export growth fell from an average of 6.8% between 1973 and 1981 to just 1.5% in the 1982-1989 period. This is primarily due to the fall-off in the world prices of the CFA Franc Zone's main export products, namely coffee, cocoa, oil, groundnuts etc.
- As most raw materials are priced in US dollars, the relative revaluation of the franc against the dollar created a

further loss of export income. While export revenues declined, the relatively lower import prices generated by revaluation intensified the competitive pressure on domestic producers.

- The guaranteed convertibility of the CFA franc at its fixed exchange rate coupled with the restrictions on public borrowing from the central bank laid down in the CFA treaty led most zone member countries to borrow in international markets. The favourable interest rates of the late 1970s and early 1980s encouraged a sharp increase in the indebtedness and the repayment commitments of most CFA countries. Falling raw materials prices and stagnating or indeed falling export revenues while capital flight was simultaneously on the increase meant that all countries except Burkina Faso were eventually unable to meet their increased debt service obligations, and they fell into arrears. This meant they had to enter into debt rescheduling arrangements with the Paris Club. Between 1986 and 1990, debts totalling US\$5.57 billion were rescheduled. The CFA zone's total foreign debt in 1990 was \$45.71 billion (of which Côte d'Ivoire alone accounted for \$18 billion).¹⁰

Whilst a number of the least developed countries in the CFA Franc Zone had their bilateral government debt obligations remitted as part of the Toronto agreements, their multinational obligations remained in force, as did the private-sector bank debts, owed in particular by Côte d'Ivoire. The foreign debt positions of Côte d'Ivoire, Congo and Gabon, and to a lesser extent those of Cameroon and Senegal, are so serious that it will be impossible for them to emerge from their economic crises without some form of debt remission or relief.

Part of the problem giving rise to such high foreign borrowing and the ensuing debt crisis in various CFA

⁶ It cannot yet be said to what extent the landslide devaluations of the Nigerian naira will necessitate a reduction in the parity of the overvalued CFA franc. The two CFA central banks, BCEAO and BEAC have now abolished the convertibility of CFA franc notes outside the 13 zone member countries. This measure was announced on 1st August 1993 and is designed to curb the massive outflow of cash from the region. The end of CFA note convertibility abroad is seen by financial markets as a forerunner of almost inevitable devaluation. It has now become almost impossible to export to the major non-CFA countries of Ghana and Nigeria now that both of them have devalued as part of their structural adjustment programmes. Products from the CFA countries are simply too expensive. One example of this is that cattle from Niger can no longer be exported to Nigeria because of the currency differential. Conversely, goods from Nigeria are now flooding the markets of West African countries. See *Africa Analysis*, No.178, 6th August 1993; *Dossier on Franc CFA*, in: *Jeune Afrique*, Nos. 1701-1702, 12th/25th August 1993, pp. 45-57.

⁷ For example, petrol and manufactured products are smuggled from Nigeria to Cameroon, Benin, Chad or Niger in the CFA Franc Zone. The smugglers' profits, in FCFA, are usually expatriated to Europe and converted into French francs or other hard currencies, but they are not reinvested in the CFA Franc Zone. In effect, the smuggling of Nigerian oil into the neighbouring countries means that Nigeria is subsidizing those neighbours. Petrol prices in the CFA countries are at least ten times the Nigerian level.

⁸ Capital flight may be greater still from countries with unstable economies and an uncertain investment climate, such as Nigeria. See S. Ibi Ajayi: *An economic analysis of capital flight from Nigeria*, World Bank Policy Research Working Papers, WPS 993, Washington D.C. 1992.

⁹ Roger Peltzer, *op.cit.*, p.6.

¹⁰ Cf. Christopher E. Lane and Leila Page, *op.cit.*; also Patrick Guillaumont and Sylviane Guillaumont: *Le Problème de la parité des francs CFA*, CERDI, Clermont-Ferrand 1989.

¹¹ Cf. Ishrat Husain and John Underwood: *The problem of sub-Saharan Africa's debt – and the solutions*, in: Ishrat Husain and John Underwood (eds.): *African external finance in the 1990s*, Washington D.C. 1991, pp. 24-45.

countries is that state-owned or semi-state-owned enterprises were permitted to borrow directly from abroad or from elsewhere in the region but did not invest those borrowings productively. Furthermore, central banks were able to divert loans nominally intended for the agricultural sector and put them to other uses. A particularly telling example of how an externally generated crisis can combine with internal mismanagement of the situation by government bureaucracies is provided by the serious banking and liquidity crises which have occurred (26 rescue operations had been conducted for various banks by 1990). The origins of these crises lay mainly in declining export earnings, and hence also declining government revenue. A particularly clear manifestation of the crisis came with the major liquidity problems encountered by Africa's oldest bank, the Banque Internationale de l'Afrique de l'Ouest (BIAO), which had to be put up for sale.¹¹

Structural Adjustment Programmes

The deep-seated economic and debt crisis led to intervention on the part of the IMF and the World Bank. Structural adjustment programmes (SAPs) were put forward to deal with the problems, and those applied in the CFA countries contained most of the usual ingredients, but with *one crucial distinction*. Whereas an integral part of the measures put forward in other African countries was the devaluation of the currency, this was not possible for the CFA countries whose franc remained pegged to the French franc. The purpose of devaluation is to raise the price of imports while creating a real reduction in factor costs, thus reducing export prices, increasing the quantity exported and generating increased earnings in local currency terms. However, the constraints upon the adjustment mechanism in the CFA Franc Zone do not necessarily mean that its members are prevented from responding adequately to structural crises. In principle, they still have enough other instruments available, such as reducing their public-sector deficits, restructuring the banking sector, etc. Nevertheless, the high real value of their currency does hamper the adjustment process.

The results of the SAPs undergone by CFA countries are little different from those occurring elsewhere in Africa. Social costs have increased.¹² Even the non-member countries have seen little increase in their exports, as the price elasticity of demand for most of the products involved is low in the purchasing industrial countries. Indeed, SAPs

have in some cases contributed towards even further price erosion for agricultural and mineral raw materials. Countries which have devalued their currencies frequently have high rates of inflation, both imported and domestically induced, which has often led (as in Nigeria's case) to a vicious spiral of inflation and devaluation. These consequences, at least, were spared the CFA member countries.

On the other hand, the revaluation of the CFA countries' currencies relative to, for example, Nigeria, Ghana, Guinea, Zaire, Sierra Leone and Sudan puts them into competition with these non-CFA countries. This tendency is manifested in the comparative changes in real prices of manufactured goods in the CFA and neighbouring countries. Nigerian companies are now exporting an increasing amount of non-registered goods to the CFA countries. Some of this intra-African "parallel trade" (i.e. smuggling) has a longer tradition (such as the cross-border trading between the Hausa in Niger and Nigeria) but is essentially a product of the differing currency trends in Nigeria, Ghana etc. and the CFA Franc Zone. Certain products, in Nigeria for example, are heavily subsidized, making smuggling very worthwhile; thus there is now a shortage of petrol in Nigeria, quite a portion of which is smuggled into the CFA countries to be sold there. Similar "parallel markets" exist between Senegal and the Gambia, Ghana and its neighbouring countries, or Nigeria and Benin. A World Bank study on Côte d'Ivoire sums up the deleterious effects of an overvalued currency for firms in the CFA Zone: "Firms producing in the tradable goods sector suffer from an overvalued exchange rate not only because these would receive a lower price for their exports, but also they must compete against lower priced imports."¹³

Role of the EC

The role played by the EC in the CFA Franc Zone has changed now that it too has introduced a structural adjustment concept. So the EC is also now active in the field alongside France and the international financial institutions. The EC responded to the SAPs by launching a special programme to assist highly indebted, poor ACP countries. Since 1988, the programme has provided aid on a rapidly available, non-earmarked basis. The funds may be used for imports if these are necessary for maintaining domestic production or safeguarding basic needs. In total, ECU 500 million were made available for the programme, funds from which are only supplied on the condition that a

¹¹ Cf. Cord Jakobeit, *op.cit.*, p. 76.

¹² Cf. Eva Jespersen: External shocks, adjustment policies and economic and social performance, in: Giovanni Andrea Cornia, Rolf van der Hoeven and Thandika Mkandawire (eds.): *Africa's recovery in the 1990s*, London 1992, pp. 9-50.

¹³ John L. Newman, Raoul Salomon and Philippe de Vreyer: *Firms' responses to relative price changes in Côte d'Ivoire*, World Bank Policy Research and External Affairs Working Papers, WPS 550, Washington D.C. 1990, p. 30.

country has already embarked upon an SAP. Funds are supplied in close coordination with the World Bank and the IMF. The overall purpose is to make the effects of SAPs rather less drastic, and to allow some account to be taken of social welfare components.

The EC has therefore determined¹⁴ firstly that countries applying SAPs will automatically be entitled to benefit from EC Structural Adjustment Support (SAS), under Article 246 of the Lomé Convention, and secondly that SAS has the purpose of alleviating the shock therapy applied by orthodox SAPs. Specifically:

- ☐ The EC's SAS is to be coordinated at a regional level, to increase intra-ACP trade with the EC's assistance.
- ☐ There should be no coupling of traditional assistance under the Lomé Convention (e.g. Stabex, Sysmin) to the SAS.
- ☐ General Import Programmes (GIPs) and Sectoral Import Programmes (SIPs) are subject to EC conditionality. The former are used to fund essential imports, while the latter are a rapidly disbursable form of assistance for imports to specific sectors of the economy.
- ☐ The ACP countries as a whole are eligible for SAS, but this is dependent on certain reforms being carried out, on the effectiveness of the measures funded, and on the feedback effects in the economic, social and political spheres of development (Article 246).

All ACP states are intended to qualify for the EC's SAS funds, but it is becoming clear that the ECU 1.5 billion set aside for the programme and the funds for GIPs and SIPs will not be enough. ACP countries already in the process of conducting their SAPs are thus likely to receive preferential treatment. All in all, however positively one

regards the EC's "good intentions", there is no discernible new concept of a structural adjustment programme on the EC's part here. To all intents and purposes, the EC has tagged along behind the World Bank etc., and is simply supporting the position as determined in Washington. There is no sign of an EC structural adjustment concept on the horizon which might meet the needs of long-term development.

Trade with the EC

To arrive at a better judgment of the possible shape of Africa's monetary future, it is important to examine trade relations in the light of monetary cooperation with Europe. The main background question is one of whether it is possible for the continent of Africa to strengthen its own regional orientation and/or whether economic and monetary cooperation with Europe will intensify.

The European Community is Africa's most important trading partner. However, while EC trade accounts for the major share from Africa's standpoint (60% of exports), when looked at the other way round, Africa's role for the EC is a rather marginal one, with just one or two exceptions. Even in France, which has the heaviest economic involvement, in relative terms both trade with and investment in Africa are on the decline. Only 1.1% of its imports and 1.4% of its exports now flow to or from the CFA Franc Zone, and the proportions for sub-Saharan Africa as a whole are 5.1% and 7.0% respectively. Moreover, annual investment by French companies fell from US\$ 850 million in the early 1980s to US\$ 170 million in 1987. Only approximately 30% of French foreign investment now

¹⁴ Cf. Commission of the European Communities: The role of the Commission in supporting structural adjustment in ACP states, Brussels 1992.

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goes to Africa (against 2/3 in 1975). Nevertheless, France is still the most important European source of investment for Africa.

The profile of Africa's exports to the European Community is still dominated by goods from the SITCs 3 (crude oil) and 0+1 (foodstuffs). Even so, there has been a noticeable increase in exports of manufactured goods, which now account for approximately 14% of the total (against about 7% in 1980). On the import side, almost 60% are inputs or capital goods and other manufactured products.

In 1990, Africa's share of world exports was approximately 2% (4.6% in 1980). Not only is Africa's share of world trade low and relatively stationary, but in many countries that trade nevertheless constitutes a considerable proportion of gross national product. Hence price fluctuations and shifting demand patterns often have a very large influence on the entire economies of African countries. Because most of them concentrate on a very small number of export products, changes on the world market are all the more important for their economic welfare. Côte d'Ivoire, for example, has been hit particularly badly by the collapse in cocoa and coffee prices.

Regional Trade in West Africa

In spite of a series of concepts and endeavours in the context of regional cooperation models,¹⁵ there has been no substantial increase in intra-African trade, which accounts for only about 6% of the total trade carried out by the individual countries. A number of factors are responsible for the limited amount of interchange within the continent.¹⁶

- ☐ The goods produced by the countries tend to be very similar, and as they are placed on the world market this may often lead to competitive rivalry for market shares;
- ☐ the rather limited range of goods does not facilitate integration;
- ☐ there is a lack of information on market opportunities in other African countries;
- ☐ trade is impaired by both tariff and non-tariff barriers (e.g. country-of-origin rules);
- ☐ communications and transport links are inadequate;
- ☐ there is a shortage of credit to fund exports to neighbouring countries;
- ☐ liberalization and integration policies are not adequate for the tasks involved;
- ☐ individual governments lack the political motivation to put resolutions already made into practice;

☐ there has been no progress on monetary integration outside the CFA Franc Zone;

☐ apart from the above, a properly functioning institutional basis is also lacking.

Nevertheless, quite considerable quantities of goods are indeed transported from one country to another – by smugglers. The goods in question usually originate from third countries, but have varying market prices from one country to another because of differentials in customs and other duties.

The degree of economic integration among the two groups of CFA countries is not substantially different from that among the members of other regional cooperation arrangements in Africa. The advantage the CFA countries do have, though, is that they have both some developed institutions and the common currency. The CEAO (*Communauté Economique de l'Afrique de l'Ouest*) counts seven CFA countries as its members, and is Africa's most successful zone of economic integration. This union has the highest level of intra-trade, which has reached an average proportion of 9% in the last few years. In other respects too, integration is deeper than in other African cooperation models. For example, the mobility of capital and labour among CEAO members does not face any major problems. There is also a system of CEAO preferences for a number of manufactured goods. Almost all raw materials can be traded without hindrance. A *taxe de coopération* is charged in all CEAO member countries to provide tariff preferences for particular products, companies or countries of origin. However, these preferences act as barriers to trade in non-preferred goods or with non-preferred companies.

Devaluation: Pro and Contra

The CFA Franc Zone countries did not perform better than other African countries in the last few years. And indeed their GNP growth was lower than that of most non-member countries. They do, however, have considerably lower rates of inflation. Capital flight is no greater than elsewhere, nor are the social problems more serious. However, the prices obtained for most export products (except for the oil exported by Cameroon, Congo and Senegal) have fallen drastically, thus severely constraining most CFA countries' capacity to import. The compensation payments made to them via SYSMIN and

¹⁵ Cf. Ali Mansoor: Experiences of economic integration in sub-Saharan Africa: Lessons for a fresh start, in: African Development Perspectives Yearbook 2, Münster & Hamburg 1992, pp. 420-452.

¹⁶ Cf. Faezeh Foroutan: Regional integration in sub-Saharan Africa: Past experience and future prospects, Paper presented at World Bank and CEPR conference on new dimensions in regional integration, Washington D.C. 1992.

STABEX were not enough to cover their lost export earnings.¹⁷ Yet the large debt mountains now accumulated demand either increased export earnings or net imports of capital, or both. The revaluation of the CFA franc relative to the US dollar and also relative to other African currencies has depressed the competitiveness of CFA countries' products. The ultimate consequence is that the French treasury has to pay out increasing compensation payments as development aid. The annual amount of support provided in recent years has been in the order of US\$1 billion.

These restrictions applying to CFA Franc Zone member countries make it difficult for them to achieve economic growth. They cannot import enough goods or attract enough outside capital to attain any investment momentum, and are also prone to capital flight. They can no longer resort to borrowing to engage in Keynesian deficit spending because of existing debt levels. They cannot boost exports because of their overvalued currency. Imports are used mainly for purposes of consumption. They are subject to external "restraint" in the form of the structural adjustment programmes prescribed as shock therapy by the international organizations – a shock which is heightened by the overvalued currency. In these circumstances, the CFA countries will become more and more dependent on development aid, including the support payments they receive from the French treasury.

In order to improve the economic situation of the CFA franc-zone countries, the IMF and World Bank have suggested that the CFA franc should be devalued. The currency's overvaluation, they say, has restricted external competitiveness, encouraging imports and depressing exports. All this has had negative consequences for domestic production, employment and fiscal revenues due to the lack of any positive transfer of resources. Even legal imports of goods which are cheap because of the overvalued currency are almost impossible for domestic firms to compete profitably against; meanwhile, non-registered imports of manufactured goods from Nigeria or Ghana are yet another damper on production, rendering still more companies uncompetitive. Thus the pressure to adjust exerted upon businesses is almost too great for them to bear.

If the effective real revaluation of the CFA franc continues (relative to Ghana, Nigeria, and countries with weaker hard currencies), the CFA countries will forfeit even more of their competitiveness. That will push their balance of payments deeper into the red and increase the

need for foreign borrowing. Yet such funds are hardly likely to be forthcoming given the amount of debt most CFA countries have already accumulated, nor will it be possible to draw greater amounts from the French treasury. Given that deficit spending cannot be expanded owing to the contractual obligations attached to the *compte d'opérations*, that foreign direct investment is in decline, and that it is hardly now possible to borrow on the international markets, the CFA countries have little remaining scope for action. The only things they can do are to increase productivity (e.g. by way of privatization) and/or to make drastic savings, e.g. by cutting payroll costs and perhaps freezing wages.¹⁸

However, the considerable state presence in economic activity makes it difficult to tap all the potential for rationalization. The loss of competitiveness cannot be counterbalanced from one day to the next by means of the privatization schemes the World Bank and the IMF have proposed, for privatization does not normally produce positive results immediately.

However, devaluation would also bring its associated problems: because of the low elasticity of demand for many export products, volumes exported would not necessarily increase. Nor can "non-tradables" automatically be expected to turn into "tradables". Devaluation can also have side-effects such as inflation induced by more expensive imports. Because of the drop in real incomes that involves, it may trigger off struggles between different social groups over the distribution of income, which in turn may necessitate further devaluation. Thus there is the danger of a spiral of inflation and devaluation becoming established. Both fiscal and monetary measures would need to be taken to avoid this inflation-plus-devaluation trap, including strict credit controls and the reduction of government expenditure, real wage cuts in both the public and industrial sectors, and a squeezing of profit margins in the private sector. However, policies of this kind generate other adverse effects of their own.

The CFA countries' dependence on the support provided by the French government in the form of either transfer payments or development assistance is growing greater and greater. If the French franc gains any more in value in the European Community context or if the ECU supersedes the franc at some time in the future and it too rises in value, it will be more difficult than ever to justify the

¹⁷ Cf. Robert Kappel: Delinking Africa? African cooperation perspectives with the European Communities, in: African Development Perspectives Yearbook 2, op. cit., pp. 344-376.

¹⁸ Cf. Patrick Guillaumont and Sylviane Guillaumont, op. cit., p. IV; Shantayanan Devarajan and Jaime de Melo: Membership in the CFA zone: Odyssey journey or Trojan horse?, in: Ajay Chhibber and Stanley Fischer (eds.): Economic reform in sub-Saharan Africa, Washington D.C. 1991, pp. 25-33.

CFA franc's fixed parity. There is no longer any economic justification for persisting with the present parity. The real currency revaluation burdens governments with the need to make disproportionately large expenditure cuts – with immense social consequences – coupled with low export growth, low investment and low incomes. The one thing that makes such persistence understandable is the fact that these countries' nepotistic élites themselves benefit from the overvalued currency because they import much of what they need for their luxurious lifestyle, and at the same time can transfer more of their wealth to Europe. This luxurious lifestyle is jeopardizing the CFA countries' development prospects.

From France's point of view, the CFA agreement has long since ceased to be an important instrument for regulating its financial and trading relations. In these respects, the CFA Franc Zone countries' role is a diminishing one, and Nigeria, for one, is now a much more important trading partner and investment location for French companies than any of the CFA countries. France's continued adherence to the CFA Franc Zone thus stems to no small degree from political and strategic considerations.

Self-reliance vs. Pegging

During the coming years, whatever temporary crises it encounters Europe will develop into an economic and monetary union (EMU). Regional bloc-building has further intensified in recent decades, and the present EC, the neighbouring EFTA countries and others now seeking membership constitute a major zone of integration. The degree of integration at present is approximately 70%. This bloc-building also implies a tendency to close out other regions, even though the EC's Generalized System of Preferences keeps the single market open to imports from developing countries without demanding reciprocity. The preferences granted to the ACP countries go beyond those included in the GSP.

Even so, there remains the risk that the CFA countries, all of which are signatories to the Lomé Convention, may be excluded by the bloc-building process in the EC. For if the CFA Franc Zone is not included into the EMU concept as a negotiating partner, as all evidence suggests, a decoupling process may be triggered off.¹⁹ The Lomé agreements do not take into consideration the concept of the CFA Franc Zone's monetary integration. Neither the

EC nor the CFA countries, as part of the ACP community, have so far put monetary integration on to the agenda.

There are two main directions in which monetary cooperation with the CFA Franc Zone could now move:

The first is that the *monetary policy integration of the CFA Franc Zone could be abolished*,²⁰ and that new, non-dependent monetary strategies could be pursued. Proponents of this approach believe that the disadvantages of being pegged to the French franc are so far-reaching that it is unacceptable to uphold the monetary cooperation any longer. The main arguments put forward against monetary integration are:

□ France dominates the administrative council, and effectively takes the key decisions. Their loss of autonomy as regards monetary policy prevents member countries from pursuing independent economic or fiscal policies. Money supply is controlled by France.

□ Having the currency pegged to the French franc exacerbates a division of labour which is already unequal, the prime beneficiaries being companies in France.

Thus the aim of this approach is to attain monetary policy "self-reliance" by detaching from the Franc Zone, even though this would entail major economic and political risks.

A number of monetary "liberation" strategies have been discussed for the CFA Franc Zone's future. One such proposal was for an ECOWAS currency zone, membership of which would also be open to the CFA countries. A feature common to all the proposals which have been put forward is that they all want to manage without being pegged to any hard currency. Other alternatives for the CFA Franc Zone, which are possible in principle but not very far developed as yet, would be a system of linkage to a basket of currencies, or else one of freely floating exchange rates. A number of dependence theorists believe that monetary self-reliance must be part and parcel of economic and political self-reliance and African regionalism. In this author's opinion, this strict delinkage approach does not take adequate account of economic dependences. It is all very well to propound the abolition of neo-colonial dependence – nobody could seriously object to this – but the argument often fails completely to portray what economic basis would exist (industry, agriculture, regional

¹⁹ The fundamental discussion on the future of the EC's special relationship with the ACP countries which has been in progress for some time is diametrically opposed to the concept of currency cooperation proposed here; see Commission of the European Communities: *La politique de coopération au développement à l'horizon 2000*, Brussels, 15th May 1992 (SEC (92) 915 final).

²⁰ Cf. Rasul Shams: *Self-reliance und die internationalen Währungsbeziehungen*, in: M. Kushi Khan (ed.): *Self-reliance als nationale und kollektive Entwicklungsstrategie*, Munich 1980, pp. 287-321; Frances Stewart: *Money and South-South cooperation*, in: *Third World Quarterly*, Vol. 9 (1987), No. 4, pp. 1184-1205; Guy Martin: *Zone Franc, sous-développement et dépendance en Afrique noire francophone*, in: *Africa Development*, Vol. 12 (1987), No. 1, pp. 55-100.

economic interchange, foreign trade relations, etc.) for any autonomous African concept. In the face of the real problems facing West Africa today, the hollow phrases of pan-Africanism or of alternative development strategies have no contribution to make towards bringing about or strengthening self-reliance vis-à-vis dependent Euro-African structures. The concepts of dependence theory are neither capable of explaining these countries' situations nor of presenting any real strategy of delinking.

The other conceivable direction is that *the system of pegging to the French franc could remain in operation*. The past successes of the CFA Franc Zone would weigh in favour of this alternative. However, as well as by the proponents of self-reliance, this concept has also been argued against by authors from the World Bank and IMF. The main reasons they cite for the crises facing the CFA countries are capital flight, low investment ratios and the difficulty of making structural adjustments due to the overvalued CFA franc (via the attachment to the French franc).

Perspectives

Will it be possible to continue with monetary cooperation as before, in the light of such harsh criticism? The sheer extent of the dependence on France and the real overvaluation of the CFA franc do indeed make this unlikely. The French government and African heads of state have been vehemently resisting any abolition of the CFA Franc Zone or indeed any devaluation, fearing that this will erode the concept as a whole. Yet even if a devaluation could be carried out without seriously damaging the CFA franc model, a discussion of the associated perspectives is a matter of urgency.

The first major problem is that of the side-effects generated by orthodox structural adjustment programmes in many CFA countries. Because they did not have the option of devaluing the CFA franc, they were compelled to make drastic cuts in government expenditure. Thus the World Bank's SAPs and related stabilization measures overseen by the IMF constitute a particularly severe system of external constraints, without there being any sign of them producing the desired results.²¹ An Afro-European monetary and economic concept directing the main focus on to social aspects of economic adjustment might be an effective counter to these negative effects. The Lomé Convention (in Arts. 243ff.) does provide for such EC structural adjustment concepts (that have been inadequate up to now), but the convention has not yet been linked to any new currency concept.

Still more important than these circumstances, though, are developments in Europe itself. The tendency will be for EMU to exclude Africa and the CFA Franc Zone unless

African countries take certain political initiatives on their own part. Neither of the two extreme alternatives of self-reliance (delinking) on the one hand or retaining the monetary linkage to the French franc on the other can be sufficiently grounded in the events of the real world. The CFA group of countries is a small market, and dependences will inevitably exist. The delinking model is not under any serious discussion in the CFA countries themselves. Even with the progress that has been made, the level of economic integration in the region is very low, and the dependence upon Europe is so great that detachment from the French franc and the ECU would lead to serious economic problems. Moreover, the experience of countries with their own separate currencies like Nigeria with its naira or Ghana with the cedi shows that it is very difficult to pursue an autonomous monetary policy. The suggestion made by Roger Peltzer is therefore that Nigeria and Ghana should join in the CFA Franc Zone, another significant effect of which might be that it would strengthen West Africa's hand in negotiations on currency issues. A common currency zone for West African currencies linked to the EC would undoubtedly be a major, forward-looking step towards making more of the trade agreements than has been the case in the past, towards securing currency stability, and thus ultimately also towards improving the investment climate. However, a fixed parity such as has existed throughout the CFA franc's history of more than 40 years' duration will be impossible to maintain. At the same time, currency cooperation with the EC would imply the transfer of France's monetary leadership role to the EC as a whole.

An Afro-European Monetary Union?

Currency cooperation along these new lines would have to be integrated into a new economic policy concept with the intent of favouring autonomous development in Africa. Thus the "delinking" from the old system could actually contribute, if the monetary zone were to be expanded to include Ghana, Nigeria and other countries²² and when the European currency concept is reorganized, towards a "relinking of the African continent into international trade".²³ Before this could happen, the African participating countries would need to be newly integrated in institutional terms. For all the criticism it has received, a

²¹ Cf. Paul Collier: European Monetary Union and "1992": Opportunities for Africa, in: The World Economy, Vol. 15 (1992), No. 5, p. 634.

²² In principle, the proposed currency union ought to include all ACP countries. For the sake of simplicity, this article confines its attention to the discussion of conditions in West Africa. However, the extension of an Afro-European currency union to cover Central, Eastern and Southern Africa as well as the Caribbean and Pacific Lomé signatories would need to be looked into.

²³ Daniel C. Bach, op. cit. (our translation).

good model for this could be the Lomé Convention. It already provides for the ACP countries' participation in negotiating the agreement, determining the size of payments made and dealing with contentious issues. Even though the EC naturally has more aces in its hand as the donor organization, the institutionalized participation of the ACP countries is at least legally laid down (Arts. 336 ff. of the Lomé Convention). The ACP countries can make use of this leeway in negotiations on such matters as what joint bodies should be established. Conflicts of interest are aired in a continual process.

The purposes an Afro-European Currency Cooperation (known as the *Zone A-ECO*) might be expected to fulfil are the following:

- The structural adjustment needed, which up to now has been instituted by the World Bank and IMF on a *country-by-country* basis, could instead be applied on a *regional* basis under the terms of the Lomé Convention (or of a special agreement for the purpose) via the new *Zone A-ECO*. Regional structural adjustment could contribute towards regional integration, the establishment of regional institutions and the expansion of intra-regional trade.
- The sharply widening gulf between the devaluing countries in anglophone West Africa and the CFA Franc Zone could be overcome by a common currency zone.
- A common *Zone A-ECO* would set an appropriate level of muscle on the part of West African countries against the monetary and economic power of the EC. Joint institutions similar to the Lomé Convention could ensure that the *Zone A-ECO* had enough weight, thus contributing to the resolution of heavily dependent relationships.
- On the one hand the *Zone A-ECO* would provide evidence that the EC is willing to bear its responsibilities in a region which is strongly linked to it economically, while on the other the West African countries would perceive the *Zone A-ECO* as a contribution towards regional cooperation with the aim of organizing economic, social and political development and reforms without the help of the North.
- A-ECO monetary cooperation would intensify the conditional factors. Associate ties between the A-ECO currency system and the ECU would entail strict monetary restraints in exchange for convertibility, as in the case of the CFA Franc Zone. Procedures for devaluations or revaluations would need to be agreed, along similar lines to those existing in Europe for the adjustment of currencies to reflect conditions in the real economy. A properly functioning economy demands a certain minimum of central bank independence in order to ensure stability. In the CFA Franc Zone, this function has been fulfilled by the

"compte d'opérations" at the French treasury. Some equivalent mechanism would also need to be set up for the *Zone A-ECO*. The experience of Africa's anglophone countries shows that stability is impossible without a strong, independent central bank. Integration of the A-ECO currencies into a European monetary system would give real bite to monetary constraints. Thus there would be in-built conditional factors restricting the sovereignty of individual member states. However, the difference between these and the ad hoc conditions imposed by the World Bank and IMF via the SAPs, which in practice hardly permit the countries affected to have any influence over the terms of the arrangements, would be that the institutional monetary conditions imposed in the A-ECO context would be based on consultation among the African member countries. The first of the advantages of such cooperation would be the hard currency status and preferential status provided within the framework of the Lomé Convention to which all A-ECO countries were signatories, though a number of weaknesses in this agreement would need to be overcome. A further benefit would be that linkage between Africa and Europe might provide the basis for the regional cooperation and bloc-building in West Africa which could be aimed for as a long-term goal. The negotiations on Lomé IV (the second half, to determine the 1995-2000 budgetary framework) would also have to include a debate on currency cooperation.

- Compensatory mechanisms would be necessary for the weaker participating countries from Africa, to counter the backwash effects likely to arise. Rigid monetary and budgetary policies associated with A-ECO might exacerbate structural economic differences and regional imbalances. The strict conditions imposed by monetary cooperation would call for regional policy measures similar to those being applied within the EC, though they would of course have to be tailored to the special situation of the *Zone A-ECO*.

Regional integration in Africa could be given a considerable boost by monetary cooperation with the EC. The CFA Franc Zone ought to serve as a model for, and have its current members integrated into, the *Zone A-ECO*. The costs of the new zone would have to be borne by the EC as part of its development aid programme. It would be essential for the West African countries which are not members of the CFA Franc Zone to be included into its A-ECO successor. Europe must be sure to meet its historical responsibilities towards Africa. The abandonment of those responsibilities cannot be justified with reference to the tasks "closer to home" arising out of assistance for Mediterranean third countries or for those of Eastern Europe.