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Currency Relations between the Global South and the Global North: The Case of the CFA France

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Abstract

This paper critically examines currency relations between members of the European Union (EU) and members of the CFA franc zone. It demonstrates that these relations provide empirical support to the dependency theory given that the CFA franc monetary system is oriented towards serving the interests of members of the EU, specifically France. Members of the CFA franc zone on the other hand are compelled to live with perpetual structural deficits since they rely on France and the EU to set interest rates and determine the level of liquidity in CFA franc economies. This paper traces the genesis of the CFA franc from its creation as the currency of the French Colonies of Africa to the present currency hierarchy that is characterised by furtive operations accounts and cloak-and-dagger deals. It reviews arguments on both sides of the debate on the rationale of the CFA franc monetary system and demonstrates that it is ill-advised to credit the system with the low inflation and sustained growth of members of the CFA franc zone in the first decade after "independence". It shows that the monetary system is a bulwark against intra-regional trade, and members of the zone are vulnerable to external shocks because they are unable to effectively formulate and coordinate fiscal policies to offset the shocks. However, it warns that although dispensing with the CFA franc would reduce dependence significantly, doing so in haste to satisfy the emotional urge for revenge would be counterproductive. The CFA franc countries must consider three things in order to decide whether they should dispense with the currency. First, the importance of a monetary union. Second, the rationale of pegging their exchange rates to an external reference or anchor currency. Third, whether the euro is the most suitable reference or anchor currency.

Keywords

Dependency Theory, CFA Franc, Currency Union, Anchor Currency, Core

States

1. The Dependency Theory

There is a fairly popular fallacy that the dependency theory is a tenuous justification for the poor management of the resources of underdeveloped or developing countries by their corrupt leaders—a victim mentality theory of sorts. Despite attempts by several commentators to demonstrate that the dependency theory explains (with a reasonable level of cogency) the peripheral role of underdeveloped or developing or "Third World" countries and their poor economic performance and state of relentless turmoil since the turn of the seventeenth century, many still hold that the dependency theory is at best the sick man in the collection of theories that constitute the development theory, and at worst, a futile theorizing exercise and a not-so-well-specified causal model after all. However, it is argued here that the dependency theory is not as much an economic or development theory as it is a diagnosis. This argument postulates the identification of conditions or factors that explain the poor economic performance and state of relentless turmoil of developing countries. Hence, it is not a competing theoretical perspective with regard to the development of societies and the distribution of resources on a global scale. It is not implied within a deterministic or stochastic framework, and there are no specific patterns that theory or diagnosis must contend with. It follows that the comparisons made between the dependency theory and economic models such as Marxism, modernization, and capitalism are somewhat misguided. It is only logical that the dependency theory is less sophisticated than these economic models given that it is simply a telling observation about the relationship between states of the Global North and Global South (Mantunhu, 2011; Herath, 2008).

What is generally referred to as the dependency theory is therefore the result of a project that documents an actual fact. The project involves a close examination of post-occupation (or post-colonial) societies and reveals that the natural resources of these societies are generally exploited by former occupiers (or colonial masters), thereby enriching the latter at the expense of the former. It also reveals that the economic, social, and political structures of the previously occupied societies are designed to, foremost, protect and further the interests of the former occupiers. This empirical discovery naturally constitutes a serious impediment to the construction of a scientific dependency theory within the confines of the development theory, but the impediment is not insurmountable. In fact, it is due to attempts at constructing such a theory and providing empirical support that the dependency theory is often compared with economic models such as Marxism, modernization, and capitalism.

Frank (1996) was among the first to make such an attempt. His treatise was in fact a report on the discovery of a phenomenon after observing that the less in-

dustrialised countries which were designated "less developed" were actually not "late starters" that were required to lay the groundwork for a "take off" toward industrialization and economic growth in a life cycle of a thousand years (Kay, 2005). Nonetheless, although Frank made a significant contribution to the dependency theory, he was fairly presumptuous in presenting the theory as a more accurate empirical reflection of the process of development than highly theorized models such as the postulate of stages of development by Rostow. It is important to show that Andre Gunder Frank was misguided as regards this point. It is true that Rostow overlooked the hurdles faced by governments in Latin America seeking to build their economies and the exploitation of these societies by industrialised countries in a system that was designed to perpetuate that state of affairs. One would therefore naturally cringe at any attempt at using Rostow's stages approach to analyze empirically the growth of the economy of a developing country in the post-colonial (or occupation) era. However, the dependency theory may find some fodder within Rostow's stages approach. A good example is his contention that economic growth is not a homogeneous continuum but a historical process of the "continuity of discontinuities" which can then be generalised in a "sequences of stages." It follows that economic growth in Asia may be different from economic growth in Europe or that economic growth in the nineteenth century may be different from economic growth in the twentieth century; and Rostow's (1960) stages approach simply represents the generalization based on common properties inferenced from the cases observed.

The most salient point in this contention is that the economies of traditional societies may "take-off" following an external intervention by advanced industrialised societies that kickstarts the process of modernizing the old culture and building a modern economy (Rostow, 2008). In other words, the intervention by core states may be critical in getting the economies of peripheral states to take off. The core states provide the requisite technological stimulus or productive investment or develop substantial manufacturing sectors. However, without the intervention of advanced industrialised societies, the economies of traditional societies may still "take off" given that economic growth is not a homogeneous continuum (Baran & Hobsbawm, 1961). The peripheral state may still mobilise the requisite domestic resources without any help from the core states.

On the flip side, the economies of traditional societies may not "take-off" due to an external intervention by advanced industrialised societies. The latter may obstruct the process of modernizing the old culture and building a modern economy. In this instance, the core or advanced industrialised state prevents the peripheral state from producing goods for sale in the international market. This is the archetypal dynamic in the relationship between core states and peripheral states as observed by theorists who developed the dependency theory.

The above notwithstanding, the various perspectives discussed above constitute evidence that there is no deterministic or stochastic framework within which economic growth must be achieved, as well as no specific patterns that inevitably lead to economic development. Some underdeveloped or developing

countries are still stuck in the pre-Newtonian stage because of the poor management of their resources by their corrupt leaders or persistent political instability and civil strife; while others are stuck due to the unshakeable reverence of tradition or the prevalence of subsistence farming. However, a close observation of many post-occupation or post-colonial peripheral societies reveals that they are readily constrained or impeded by former occupiers, (which are currently core states) in their quest for development. This is because the economic, social, and political structures of the peripheral or previously occupied societies are designed to, foremost, protect and further the interests of the core states or former occupier. Despite the best efforts of the leaders of the peripheral states, their institutions are bound to remain corrupt because transparency and accountability across the board would require the public disclosure of the terms of agreements between the governments of the peripheral states and the core states, as well the actual quantity of resources imported to the core states. In many countries, the disclosure of such information may cause a riot. Equally, despite the best efforts of the leaders in the peripheral states, their citizens cannot be rescued from unending political instability and civil strife because some political factions are patronized by multinational companies headquartered in the core states.

It follows that many peripheral societies cannot achieve economic growth if they do not sever ties with the core states or somehow get the latter to change their policy of systematic exploitation. As mentioned above, it is always important to acknowledge that all the reasons for the underdevelopment or stagnation of peripheral states do not lie outside of their boundaries given that endemic corruption, mismanagement of resources, and infighting have serious adverse consequences on any state. However, the relationship between the peripheral and core countries is the centrifugal force in many systems. It is responsible for the upstream stretch of the flow of resources to the shores of the core states, leaving the peripheral states with unpaved roads, patchy forests, old mining towns, polluted environment, and a very angry, disenchanted, and confused populace. This is the negative facet of the Global North-South binary which provides empirical content to the dependency theory. It is shown in the next part that an excellent case study is the monetary union between the EU and African states of the CFA franc zones.

2. The Core-Periphery Monetary Union

The CFA franc is the currency used in 14 West and Central African countries. There are effectively two currencies and two currency unions: the West African CFA franc and the West African union; and the Central African CFA franc and the Central Africa union. Interestingly, the currencies are not interconvertible. Hence, there is no conversion of the West African CFA franc into the Central African CFA franc in the Central African CFA zone and vice versa. There is no official explanation why. It may be assumed that at the time of the creation of the currencies, the prospects for convertibility were not altogether great since the

participating countries exported only raw materials and had no monetary reserves. However, it is uncertain why both currencies are still not interconvertible six decades later. The internal financial situation in the participating countries is much better at present and they have huge monetary reserves—sixty years' worth of reserves. The effect of the non-interconvertibility of both currencies is that West African citizens cannot convert into West African CFA franc their current earnings in Central African CFA franc and cannot freely transfer capital out of Central Africa in West African CFA franc. In the same vein, the outstanding West African CFA franc balances that are held by the central bank of Central African countries cannot be made convertible in Central Africa. In other words, the West African CFA franc is of no value in Central Africa, and the Central African CFA franc is of no value in West Africa.

It is strange that in other currency unions, there is complete interconvertibility of the constitutive currencies and no quantitative trade restrictions. For example, non-residents in one sterling country such as Scotland can freely buy in another sterling country such as England, and also freely transfer sterling from England to Scotland. Also, although residents of Scotland can covert their sterling holdings into dollars via the dollar pool arrangements, their ability to do so is limited by the quantitative restrictions that are maintained by Scotland (in collaboration with the Bank of England) in relation to imports and payments from the United States.

Also, in the European Payments Union and subsequently, the European Monetary Agreement (EMA) there was interconvertibility of currencies through EMA's clearing facilities, and there was partial convertibility into dollars via the EMA's dollar settlement provisions. The currency of one EMA member state could therefore be exchanged directly for another member state's currency by nonresidents. However, the objective of the Organisation for Economic Cooperation and Development (OECD), which administered EMA, was economic integration. It was contended that the coordination of the exchange rates of the participating European states would lead to the integration of their balance of payments accounts and promote free trade (Brou & Ruta, 2011; Jones, 1957). This explains why EMA eventually led to the creation of the European Economic Community and the EU.

There is little reason to believe the French government ever sought to achieve any level of economic integration within West and Central Africa. Hence, there was no incentive to allow the participating African countries to convert their currencies or integrate their balance of payments accounts. At the time of the creation of the CFA franc, the locals were considered French second-class subjects and not citizens of any particular country. The only exception were the inhabitants of the Four Communes of Senegal. Hence, they had no claim rights to property or politics. The CFA franc was designed to, foremost, protect and further the interests of France, the official occupier. Questions about boosting free trade in the CFA franc zones or economic growth of participating African states

were simply superfluous. This is evident from even a cursory glance at the genesis of the CFA franc.

2.1. The Genesis

The CFA franc was originally referred to as the franc of the "French Colonies of Africa". It is often stated that the origin may be traced to the Brazzaville Conference of January-February 1944 and the Agreement setting a fixed exchange rate between the French franc and the CFA franc in December 1945. The CFP franc (used in French Wallis, Futuna, Polynesia, and Caledonia) was also created. Ian Taylor for example states that the CFA franc was created in 1945 because the French government did not want imports from its colonies or occupied territories to become cheaper—the French government had ratified the Bretton Woods Agreement and was compelled to devalue the French franc for the purposes of setting an accurate fixed exchange with the new global currency, the CFA franc (Taylor, 2019). By creating separate currencies for the occupied territories, the French government ensured that imports from these territories were not affected by the weak French franc.

However, the genesis of the CFA franc may be traced to at least one century earlier. In December 1853, Napoleon III signed a decree creating the Bank of Senegal in Saint Louis, Senegal (Pigeaud & Sylla, 2020; Godeau, 1995). The bank was tasked with paying reparations to former slave owners who had lost access to free labour due to the abolition of slavery in April 1848. It was also generally difficult for French merchants in occupied territories of Africa to access loans from banks in Europe due to unfair practices by some European trading companies such as Maurel and Prom. Thus, the Bank of Senegal was the institution tasked with providing financial services to French citizens in occupied territories in Africa and ensuring the economic stability and growth of the economies of these territories. Following the Berlin Conference of 1885, France's piece of the African cake was formally ordained in 1895 as French West Africa (*Afrique occidentale française* or OAF). It essentially comprised eight separate territories occupied by the French: Cote d'Ivoire, Dahomey (currently, Benin), Guinea, Upper Volta (currently, Burkina Faso), Mauritania, Niger, French Sudan (currently, Mali), and Senegal (Gamble, 2017; Conklin, 1996). The capital of the federation was Saint Louis in Senegal, the same city in which the Bank of Senegal was headquartered. The bank was also responsible for increasing the money supply in the territories and the French government and the central bank, Bank of France, monitored the amount of money in the territories' economy by simply measuring the bank's cash and deposits.

In 1901, the Bank of Senegal was dissolved and replaced by the Bank of West Africa (B*anque de l'Afrique occidentale* or BAO). However, the latter bank was headquartered in Paris. A law of 1901 authorised BAO to issue French francs that were used in the African territories (Deng, 1982). Hence, French West Africa was a currency zone of sorts since it did not use the French francs issued by

the Bank of France. In BAO, this zone had its own issuing bank, investment bank, and commercial bank. To further reinforce the fact that the bank (and all other institutions erected by the French) were designed to further the interests of the French, Pigeaud & Sylla noted as follows:

> It operated exclusively at the service of French metropolitan interests and in particular of the French import-export companies to which it devoted most of its resources, at the expense of their African rivals. (Pigeaud & Sylla, 2020: p. 8)

In 1910, French Africa expanded significantly with the integration of French Equatorial Africa that comprised Central Africa, Congo, Gabon, and Chad. By 1920, French Africa was even bigger with the integration of some territories previously occupied by Germany, including part of Cameroon (which became French Cameroun) and part of Togo (which became French Togoland). The law of January 29, 1929 made BAO the issuing bank, investment bank, and commercial bank of the newly acquired territories as well. However, it increasingly became difficult for BAO to increase money supply, provide financial services to French citizens in all occupied territories in Africa and ensure the economic stability and growth of the economies of these territories. The law issued on December 22, 1925 created the Bank of Madagascar and made it the issuing bank in that territory, thereby creating a separate monetary zone of sorts.

At the end of the 1930s, BAO began to face competition from other French commercial banks. Three banks set up shop in Senegal between 1939 and 1940: National Bank for Trade and Industry (*Banque nationale pour le commerce et l'industrie*), Société Générale, and Credit Lyonnais. They financed only trade that benefited France and ensured that what is referred to as the "colonial pact" was observed to the fullest extent possible. This "pact" ensured that France maintained the dominant position as the core state in the Francophone world, while African states (occupied territories in the 1940s) played only a peripheral role such as providing labour to French plantation owners and importing raw materials or primary products to France (Zerbo, 1956-1957). Hence, the pact ensured that the occupied territories in Africa remained undeveloped so that their abundant resources could flow continuously to France. Although the parchment has seldom been pictured, Fanny Pigeaud and Ndongo Samba Sylla note that the "pact" is centered around two main pillars: the prohibition of industrialisation by natives in the occupied territories; and the protection of French monopoly on all imports from and exports to the occupied territories. They then concluded that the "pact" "established relationships of dependence that forced the colonies to constantly adapt to the economic conjuncture of the metropole and to the requirements of its economic development." (Pigeaud & Sylla, 2020: p. 8)

The CFA Franc was actually created in 1939. At the time, there were few French commercial banks operating in the occupied territories. As noted above, although all the territories used the French franc, French West Africa and

French Equatorial Africa were in a currency zone of sorts given that they did not use the French francs issued by the Bank of France. They used notes and coins that were issued by BAO, which were not designed in the same way as the notes and coins issued by the Bank of France. In 1936, the French government abandoned the gold standard and banned all trade between the French metropolis and other countries. In September 1939, with the certainty of war in Europe, the French government formally created the franc zone. This enabled the French government to coordinate the policies of all the territories it occupied. In December 1939, the French government created the CFA franc or *franc des colonies françaises d'Afrique*. At the time, the French franc was not a reserve currency like the British sterling. With the creation of the CFA franc, the French franc then became the reserve currency of the CFA franc territories. The foreign accounts of these territories were concentrated in the Bank of France. Following the occupation of France by Germany, the French government in exile in London authorised the "Free French semi-central bank" or *Caisse centrale de la France libre* (created in December 1941) to issue coins and notes and control the supply of money in French Equatorial Africa and Cameroon (Foulk, 2022). However, this institution was largely designed to use resources in the occupied territories to fund the French liberation movement in London. As such, just about everything that has to do with the CFA franc was designed to ensure the flow of resources from the peripheral African states to France, the core state.

It must also be noted that at the time of the creation of the CFA franc, the West and Central African countries currently using the currency were not "countries" per se but French colonies (or UN mandated territories) or specifically, parts of Africa occupied by France and divided into semi-autonomous territories for administrative purposes. This is evidence that the West and Central African countries currently using the CFA franc are essentially entities that were designed to further the interests of their colonial master, France. It is well-established that the Berlin Conference (1884-45) sought to avoid armed conflict between rival European core states by managing the "Scramble" over the resources of Africa. The General Act of the Berlin Conference of February 26, 1885 concluded the conference and represented the culmination of the dependency framework erected by European core states. These core states (as well as their ally of circumstances, the United States) agreed to share the Congo and Niger rivers and recognised a set procedure for acquiring territory on the African coast. A large part of the Equatorial Forest in Central Africa was declared "neutral", while King Leopold's genocidal reign in another part was varnished with a pungent lacquer of international legitimacy. The Belgian King had simply cobbled together parts of the former Kingdoms of Kongo, Luba, Lunda, Chokwe, and Yeke and declared the delineated expanse his property (Stengers, 1969).

Antony Anghie observed that the Berlin Conference formalised the subjugation of the people of Africa, "transformed Africa into a conceptual terra nullius" and set the ground rules "which determined in important ways the future of the

continent, and which continues to have a profound influence on the politics of contemporary Africa." (Anghie, 2004) Unfortunately, this statement is still true in 2021. Even commentators who hold that the importance of the Berlin Conference has been wildly exaggerated maintain that the Conference was organised during a frenzied time when African nations and Kingdoms were being captured and repurposed to serve the interests of imperialist European states solely (Craven, 2015). Crowe, who for example argued that the Berlin Conference largely turned out to be a damp squib, noted as follows:

> Free trade was to be established in the basin and mouths of the Congo; there was to be free navigation of the Congo and the Niger. Actually, highly monopolistic systems of trade were set up in both those regions. The centre of Africa was to be internationalised. It became Belgian. Lofty ideals and philanthropic intentions were loudly enunciated by delegates of every country…[and yet] the basin of the Congo…became subsequently, as everyone knows, the scene of some of the worst brutalities in colonial history.
> Last but not least, and this is the feature of international law most commonly associated with it, the conference made an attempt to regulate future acquisitions of colonial territory on a legal basis. But here again, its resolutions, when closely scrutinised, are found to be as empty as Pandora's box. In the first place the rules laid down concerning effective occupation, applied only to the coasts of West Africa, which had already nearly all been seized, and which were finally partitioned during the next few years. (Crowe, 1942: pp. 4-5)

In the same vein, Pakenham argued that the Berlin Conference did not precipitate the infamous Scramble but it was really the other way round. The Scramble had precipitated Berlin. The race to grab a slice of the African cake had started long before the first day of the conference. And none of the thirty-eight clauses of the General Act had any teeth. It had set no rules for dividing, let alone eating, the cake (Evans, 2002; Pakenham, 1991; Crowe, 1942).

It is in this context that the CFA franc was created. As noted above, France had grabbed its own slice of the African cake, and the CFA franc was simply cutlery that enabled France to serve and munch the cake with a voracious appetite. France was the metropolis or core and each colony or mandated territory that used the CFA franc was a peripheral entity. The currency facilitated the process of channeling economic surpluses from the peripheral entities to the core (Sylla, 2020).

2.2. The Purpose of the Monetary Mechanism

As the common currency of occupied territories, the CFA franc enabled France to better manage these territories because it was able to subsume them within a homogenous structure with a single unit of account. External shocks then affected all the territories equally. This made it easy for France to compare the

price and value of the primary resources that were shipped out of French Equatorial Africa to those shipped out of French West Africa. Because the French government was the sole administrative, judicial, and political authority in all the territories, it was able to ensure that natural resources and humans flowed freely within the homogenous structure, reducing transaction costs significantly, and avoiding issues such as triangular currency convertibility. Due to the fixed rate with the French franc set in December 1945, France also ensured that the exchange rate of the currency used in these occupied territories was not affected by the cyclical changes of prices of their primary exports or political and social instabilities.

Given that core states accrue huge benefits at the expense of peripheral societies, farmers in the occupied territories were condemned to low revenues. They were unable to react when the demand for their products increased significantly in the global market. The local leadership was also unable to alter the currency's value in order for their products to become competitive in the international market. It must be noted that the internal purchasing power of consumers in these peripheral territories was seldom an advantage since the territories were compelled to export cheap raw materials to France and import expensive manufactured products from the same France. The monetary and exchange rate policies, many of which are still in force, were formulated and imposed by the French government. Thus, in the CFA franc zones, the priority has always been to keep inflation low rather than stimulate economic growth. Even after the French left officially, they ensured that the CFA franc countries remained the same peripheral societies that were repurposed to solely further the interests of France, the core state or metropolis. All the infrastructures built in the peripheral territories by France were designed to facilitate the process of extracting resources in the territories by France. The CFA franc is simply one of such infrastructures. The infrastructures are now in the custody of African leaders, but the latter are mere trustees for the most part. As such, although the CFA franc survived the upheaval that followed from the "independence" of the peripheral countries (or more precisely, the official end of French occupation), the currency has continued to serve its original purpose of furthering the interests of France, even when such interests are incompatible with those of the CFA franc countries. This explains why Sylla described the CFA franc as follows:

> The CFA franc is a good currency for those who benefit from it: the major French and overseas corporations, the executives of the zone's central banks, the elites wishing to repatriate wealth acquired legally or otherwise, heads of state unwilling to upset France, etc. But for those hoping to export competitive products, obtain affordable credit, find work, work for the integration of continental trade, or fight for an Africa free from colonial relics, the CFA franc is an anachronism demanding orderly and methodical elimination (Sylla, 2017).

This reinforces the argument that the CFA franc epitomises the dependency

that characterizes the relationship between the Global North and the Global South; the former (represented by France) being the core and the latter (represented by former French "colonies") being the periphery. The currency and associated benefits therefore constitute a Trojan horse gifted by France and upheld by a few African elites who are tasked with maintaining the unfair system.

After the official end of French occupation (generally referred to as independence), the currency union was effectively redesigned into two separate unions: the West African Economic and Monetary Union (known by its French acronym, UEMOA) that comprises eight countries; and the Central African Economic and Monetary Community (known by its French acronym, CEMAC) that comprises six countries. Both unions represent about 22 percent of the GDP of sub-Saharan Africa. In light of the potential of the constitutive countries, a single currency union would confer significant advantages to these countries in the form of the reduction of transaction costs related to exchanging currency, as well as the costs of exports; the increase in cross-border investments; and the avoidance of competitive speculation and devaluations. However, the French ensured that both currencies cannot be exchanged equally. The West African CFA franc is not legal tender in Central Africa and vice versa. In other words, the West African CFA franc cannot be used as a substitute for the Central African CFA franc. This implies that the French did not intend to create a monetary mechanism that could foster the integration of the economies of these once occupied territories. There was no objective to create a unified economic area. Maintaining exchange risks between both unions ensured that each currency area remained limited within the boundaries set by the French, and the flow of private capital was restricted to one zone only, thereby limiting its ability to accelerate the adjustment of the balance of payments within both zones and maintaining equilibrium. As mentioned above, the CFA franc was not a common currency for the African "countries" that were occupied by France, but simply a mechanism to enhance the competitiveness of French exports from the territories it occupied.

The French government signed two monetary co-operation accords with both zones in 1972 and 1973. The accords established four things. First, they set a fixed rate of exchange with the French franc. The exchange rate of the CFA franc in both zones was tied to the French franc, providing greater certainty for French exporters and importers, and enabling the French government to maintain low inflation and interest rates. Interestingly, between the end of the World War and the early 1970s, independent states were required by the Bretton Woods Agreement to peg the exchange rates of their currencies to the value of the U.S. dollar. However, the CFA franc was not pegged to the U.S. dollar, but to the French franc. The U.S. currency was the world currency, not the French franc. This implies that countries of the CFA franc zones were not actually part of the monetary order that governed the flows of money across the borders between independent states. While most international transactions were valued or assessed in U.S. dollars, transactions in the CFA franc zones were denominated

in French francs.

The accords between France and the CFA franc zones also provided that the French treasury had to guarantee the CFA franc's unlimited convertibility into the French franc. The European Council Decision 1998/683/EC of November 23, 1998 authorised the continuation of the arrangements between France and the CFA franc countries. Since then, the CFA franc of both zones has been pegged to the euro with a fixed exchange rate parity. Also, since then, the French Treasury guarantees the convertibility of the CFA franc into euro at the Paris Stock Exchange. However, the central banks of both zones are still required to deposit 50% of their net foreign reserves in an operations account at the French Treasury. The European Council Decision also endorsed the free capital movements with France and within each CFA franc zone, but not between the two CFA franc zones.

The arrangement endorsed by the European Council ensured that the CFA franc would always be liquid in terms of exchange with the euro. This is in fact the most important concession by the French government and the EU. This is because unlimited convertibility is very difficult to achieve, and it is all but certain that the countries of the CFA franc would never have achieved unlimited convertibility into any major currency used in the international market. The currencies of the biggest economies in Africa such as Nigerian naira, Egyptian pound, Ghanaian cedi, Kenyan chilling, and Ethiopian birr are almost nonconvertible in the international market. It is almost impossible to convert them into any major currency as they are not seen as a reliable store of value even by other African countries.

However, despite the CFA franc's unlimited convertibility into the euro, foreign investors often have trouble buying and selling the CFA franc. It cannot be easily traded on foreign exchange markets because of the very low demand for the currency. It is traded in such low volumes that the currency is hardly available in foreign exchange markets outside of West and Central Africa. Thus, it is only converted into other legal tenders in very small amounts. It follows that the CFA franc does not actually benefit from the guarantee of unlimited convertibility. It is hardly the agreed-upon currency for the payment of globally sourced commodities, even those from West and Central Africa. It is a hard currency in name only. Hence, although it is argued above that the guarantee of the CFA franc's unlimited convertibility into the French franc (and subsequently the euro) is in fact the most important concession by the French government, it is no more than giving a golden toothbrush to a bird. The CFA franc is at best partially convertible.

Another important rule established by the monetary cooperation accords is the centralisation of foreign exchange reserves. This is the biggest concession made by countries of the CFA franc zones, or rather imposed on them. Following the official end of French occupation, a central bank was established in each zone—the Bank of Central African States for the Central African zone (French Equatorial Africa and Cameroon) and the Central Bank of West African States

for West Africa (French West Africa). Initially, the rule required each central bank to deposit all the net foreign exchange reserves of all the countries in the zone to an operations account at the French Treasury. In 1973, the accords were modified, and the central banks were required to deposit 65% of their net foreign exchange reserves. In 2005, the percentage was reduced further to 50%. The deposit is made in exchange for the guarantee of unlimited convertibility by the French government, which as shown above, was and is not actually needed. Hence, although the French guarantee is presented as a quid pro quo for the deposits of foreign exchange reserves, the countries of the CFA franc zone do not benefit from either the guarantee or the deposit of their foreign exchange reserves.

Interestingly, the accords require the countries of the CFA franc zone to ensure that money in circulation in their economies is at least 20% less than their foreign exchange reserves. However, given that the largest economies in both zones are oil producers, when oil prices are high, the ratio of money in circulation to foreign exchange reserves is close to 100%. Hence, the countries of both zones may collectively manage without the French guarantee of unlimited inconvertibility when oil prices are high.

It is also uncertain what the countries of the CFA franc zone benefit from depositing 50% of their net foreign exchange reserves in an operations account at the French Treasury. Moreover, they are required to convert their foreign reserves into euros (previously, into French francs), compelling them to ensure that the euro (previously, French franc) remains the only reserve currency of the zones. Given that both CFA francs are not intra-convertible, the participating African states are also compelled to ensure that the euro (previously, French franc) remains the most widely used currency for trade in both zones. Unsurprisingly, the euro played a very important role as financial currency in the CFA franc zones between 1999 and 2007. The stock of outstanding international debt securities was denominated more in euro than the US dollar in 2007, and half of the outstanding loans to Africa issued by banks in the eurozone were denominated in euro (Hallet, 2008). Conversely, the CFA franc was hardly available in foreign exchange markets in the eurozone during that time.

The above notwithstanding, the fact that the participating African states could not hold foreign exchange reserves and can only hold 50% of their reserves at present implies that they still are unable to decide how to weather shocks, reinforce the resilience of their economies, and moderate the value of their own currency. It is especially frustrating for these states that they cannot pay for foreign commodities and services in CFA francs. Hence, one would have thought they needed all the foreign reserves they can hold to service debts and pay for foreign goods and services, thereby ensuring that they can always afford essential imports. Holding sufficient foreign reserves also provides creditors with adequate information that the African countries are able to pay debts that are denominated in foreign currency. It follows that the participating African countries are forced to rely on France (and to a certain extent, the EU) to provide stability and

reassure investors. During crises, it is incumbent on the French government (and the EU) to step in and bid up the value of the CFA franc by authorising the participating African countries to use some of their foreign reserves. This reinforces the contention that the CFA franc states are simply peripheral societies.

Finally, the monetary cooperation accords require all participating states to refrain from restricting the movement of capital regardless of the place of investment of the capital or the status of the person transferring the capital. Hence, capital movements in the CFA franc zones are fully liberalised, albeit on paper. This is without doubt a huge potential benefit for the participating states. This is because it may potentially contribute to the growth of the economies of the participating states given that capital may be transferred and invested efficiently and the use of the CFA franc as an international currency may be promoted. The free transfer of capital also helps in strengthening the economic unions of the participating states in West and Central Africa. However, this benefit exists on paper only. It has been contended that the free capital transfer only facilitated capital flight from the CFA franc zones to France and Europe, thereby further enriching the core states at the expense of the peripheral African states. Foreign investors have largely stayed out of the zones, which explains why foreign direct investment was for example greater in Ghana than the entire West Africa CFA franc zone (Wilson, 2020), despite the free movement of capital in the latter zone, the unlimited convertibility of their hard currency guaranteed by the French government, and the monetary stability touted by the CFA franc zone elites, French government, and other fans of the CFA franc.

3. The Way Forward

The dependency theory postulates the identification of conditions or factors that explain the poor economic performance and state of relentless turmoil of developing countries. It is argued here that one of the factors that explain the poor economic performance and turmoil of countries in former French Equatorial Africa and French West Africa is the CFA franc. This is because the CFA franc was designed to, foremost, protect and further the interests of France, the former occupier. In light of the discussion above, it is submitted that dispensing with the CFA franc would reduce dependence significantly. However, as mentioned above, Ndongo Samba Sylla described the CFA franc as "an anachronism demanding orderly and methodical elimination." Emphasis should be placed on "orderly and methodical." Hence, the CFA franc countries must consider three things in order to decide whether they should dispense with the currency. First, the importance of a monetary union. Second, the rationale of pegging their exchange rates to an external reference or anchor currency. Third, whether the euro is the most suitable reference or anchor currency.

Regarding the importance of a monetary union, a common currency enables the participating African countries to collectively react when the demand for their products increases significantly in the global market. They may for example alter the currency's value in order for their products to become competitive. The

monetary unification also enhances the integration of the bond and equity markets of the participating countries and may facilitate adjustments to asymmetric shocks. Other significant advantages discussed above include the reduction of transaction of the costs of exports and costs related to exchanging currency; the increase in cross-border investments; and the avoidance of competitive speculation and devaluations. It may be difficult to reap these benefits with the CFA franc because the French did not intend to create a monetary mechanism that could deepen the integration of the economies of the CFA franc countries. Thus, the latter are unable to alter the currency's value or determine appropriate measures to adjust to asymmetric shocks. Dispensing with the CFA franc is therefore the way forward. However, doing so in haste to satisfy the emotional urge for revenge would be counterproductive. The political leadership of the CFA franc countries must ensure that they do not hastily put the cart before the horse. These countries must first implement measures that significantly increase cross-border trade. This must be followed by the creation of a monetary system which consists of mutually fixed exchange rates between the participating states, and then a common monetary policy. It is only when these have been accomplished that the CFA franc countries may consider dispensing with the CFA franc.

In 2018, the African Continental Free Trade Area (AfCFTA) was signed by 44 African countries in Kigali, Rwanda. The Agreement creates the world's largest free trade area as regards the number of participating states. As of August 2023, 47 African countries had deposited instruments of ratification. All CFA franc countries, except Benin, have ratified AfCFTA. The Agreement seeks to create a single market, deepen integration of African economies, facilitate the movement of people, labour, goods, services, and capital across borders, and set the stage for the creation of a continental customs union. The participating states are required to suspend or remove physical and fiscal barriers of almost 90% of goods in the first phase of implementation. Negotiations on the schedule of tariff concessions are ongoing. If implemented as hoped, AfCFTA will considerably boost cross-border trade thereby giving the CFA franc countries the requisite ammunition to dispense with the CFA franc and form a proper common currency or monetary union.

In 2001, a number of West African states (members of the Economic Community of West African States excluding the West African CFA franc states) created the West African Monetary Institute. It was tasked with providing the framework for West African central banks to start the integration of their monetary policies. There was a plan to introduce a common currency for West African states, eco, in 2003. This was postponed many times and finally rescheduled to 2020. However, between 2003 and 2020, significant progress was made given that West African CFA franc states agreed to merge "their" currency with eco. Thus, eco had to be launched in 2020 as a common currency of all West African states. However, in December 2019, the President of Cote d'Ivoire threw a cat among the pigeons by announcing that the West African CFA franc countries

had agreed to reform "their" currency and rename it, eco. The reform entails allowing West African CFA franc countries to keep all of their net foreign reserves. Also, a French representative will not be required to sit on the board of the currency union. However, there is no intention to sever financial links with the French government given that it will still guarantee unlimited convertibility and the fixed exchange rate with the euro will be maintained.

Despite the confusion caused by the announcement by the President of Cote d'Ivoire, the eco sets the stage for a monetary system and a common monetary policy for West African CFA franc states. This potentially gives the CFA franc countries a solid foundation for a future monetary union that should dispense with the CFA franc and create a proper common currency.

With regard to the rationale of pegging their exchange rates to an external reference or anchor currency, there is certainly consensus on the fact that this helps to create stability between the participating countries and ensures fiscal discipline. This is especially important for African states that do not have robust governance structures and stable and predictable political systems. However, as noted above, between the end of the World War and the early 1970s, independent states were required by the Bretton Woods Agreement to peg the exchange rates of their currencies to the value of the U.S. dollar. The CFA franc countries were independent states by most accounts but were somehow compelled to peg their money to the French franc and the euro. If the CFA franc countries must dispense with the CFA franc and create a common currency, they must determine whether the euro is the most suitable reference or anchor currency.

Hallet (2008) noted that between 1960 and 2004, countries of the CFA franc zones performed better than other African countries with regard to macroeconomic stability. They had lower inflation rates and variability. Also, Hallet stated that the monetary cooperation accords between France and the CFA franc countries enhanced the credibility of the latter's imports and enabled them to reap benefits associated with unlimited convertibility. Nonetheless, as mentioned above, the latter awaits demonstration (Hallet, 2008). Equally, Frankel (2008) intimated that between 1999 and 2007, the euro boosted trade between the relevant EU member states and CFA franc states by almost 76%. However, the euro was the most suitable reference currency because the EU had the largest share of trade in the CFA franc zones. The share has reduced significantly since 2007. In fact, it has been reducing consistently since 1995. From 2009 to the present date, the largest trading partner has been China. This therefore begs the question of whether the CFA franc countries should seriously consider the renminbi (RMB) as the reference or anchor currency.

Many central banks on the continent have signed bilateral swap agreements with the Chinese Central Bank given that China is Africa's largest bilateral creditor. Chinese banks and corporations hold over 20 percent of the external debt of African countries. Hence, if a substantial quantity of commodities is mainly bought and sold using the RMB, it is logical for African countries to seek better

access to RMB, denominate their loan contracts in RMB, and hold a substantial part of their reserves in RMB. Also, the Chinese government is set to invest trillions of dollars in Africa via the Belt and Road Initiative (BRI). It is therefore only logical that African states involved in the BRI projects would prefer to denominate the value of all assets and liabilities in their local currencies and China's currency.

China also plans to export its digital currency electronic payment system in order to encourage RMB use and increase the number of RMB-denominated transactions across the world. The system will bypass local financial and administrative institutions, providing greater incentive for individuals and businesses to use the digital RMB. This will certainly appeal greatly to traders seeking to reduce currency conversion fees for transactions with Chinese companies. China has also built an extensive phone infrastructure in Africa, and the Chinese company, Huawei, has introduced a smartphone in African markets that is preinstalled with a digital RMB wallet and can be used without an internet connection. Should Transsion, the top-selling phone company in Africa, which is also Chinese, start making such phones, then RMB would be used extensively across the continent, regardless of the official monetary policy.

However, many commentators have suggested that it is better to peg a common currency in West Africa to a trade-weighted basket of currencies, including the euro, US dollar, and RMB or all the currencies that constitute the Special Drawing Rights of the IMF because such a peg better reflects trade patterns around the world (Signe, 2019; Ngouana, 2012; Sylla, 2020). This may also improve the stability of the common currency where a major trading partner's exchange rate fluctuates. In the same vein, a common currency in Central Africa should be pegged to the US dollar, euro, RMB, and price of oil because the currency would be more market-based and adjustable to the volatility of the price of oil (Zafar, 2021).

The basket peg would terminate the unfortunate dependence on France and the EU. Using the RMB as anchor currency and keeping foreign reserves of participating African countries in a Chinese institution carry a risk that a similar relationship characterized by dependency may be established between China and the participating African states. This is because Ivorian and Cameroonian trading partners would use a network powered by a Chinese telecommunications company to discuss terms of their agreement, use the digital RMB system to make and accept payment, and transport the goods on a railway built by China using a Chinese carrier to a port built and controlled by China. This is absolute dependency. Nonetheless, the important question would be whether China enriches itself at the expense of the participating African countries or whether this is a non-zero-sum game where all the parties reap substantial benefits.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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