Symposium on the CFA Franc Reform in West Africa: WAEMU States' Exit from the CFA Franc Zone: Legal and Other Considerations

By:

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WAEMU states comprising Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo announced in December 2019 that they planned to drop the CFA Franc - a currency they have used since 1945 and which they retained after the independence era in the 1960s.

This arrangement works in such a way that the currency is managed by the Central Bank of West African States, also known as the BCEAO, but with strong support from France. In fact, a member of the Board of the BCEAO is a Bank of France representative with a veto vote.

Here are some thoughts around these developments which could have both positive and negative implications for the region moving forward. West African leaders should consider these as they make their decisions about which approach to adopt.

1. The announcement by WAEMU in December 2019 signifies progress when placed in the context of the African Economic Community agenda and timelines. Dropping the CFA Franc creates room for them to align with the African integration effort which envisions achieving an African-wide monetary union but through a gradual process involving successful economic integration at the sub-regional levels and among Regional Economic Communities RECs such as ECOWAS – which WAEMU is a part.

2. Exiting the CFA Franc arrangement can mean an opportunity to truly focus on growth as the WAEMU arrangement has been deemed as exploitative since the countries have to contribute 50% of their foreign reserves to France. Dropping the arrangement means that these resources can be channelled towards growth – building industries, facilitating intra-West African trade etc.

3. WAEMU countries would need to think carefully about what would replace the CFA Franc currency and which currency this replacement would be pegged to. At the moment they have kept a fallback plan for France to take over the arrangement Should WAEMU fall behind in their payments of trade deficit.

4. Closely linked to the above point would be the extent to which the other states in West Africa, predominantly Anglophone West Africa, would be willing to join these countries to set up or establish a West African-wide single currency. At the moment, the countries appear embroiled in a squabble over the choice of name, - the ‘eco’ - that WAEMU states have decided to use for their new currency. ‘Eco’ had been the long-standing name chosen for the potential ECOWAS-wide single currency since the idea was proposed in 2001. Nonetheless, this dispute is somewhat confusing as one would think that if the ultimate aim was to merge the two unions, then the use of the same name would surely simplify a future merger. But this is not the case. The mistrust from the non-WAEMU states is from their view of WAEMU States’ odd relationship with France, which makes them misconstrue this gesture as one with an ulterior agenda. If the more positive approach were to be taken – that the name could only be planned for a future merger – then the big question would be: to what extent would the rest of the Anglophone states of West Africa be willing to give up their monetary sovereignty for a regional currency? Would Nigeria be willing to give up the naira for the 'eco'? Also, bearing in mind the absence of supranationality for less complex arrangements such as a customs union within ECOWAS, it is challenging to conceive the achievement of a supranational framework for a deeper form of integration such as a monetary union. Up till today, the ECOWAS customs union in is still plagued by non-tariff barriers.

5. Going by the European Monetary Union (EMU) experience, this would necessitate, among other things, convergence of monetary, fiscal and financial policies.

- Before the EMU, the alignment of Member States monetary policies was provided under the convergence criteria requiring that inflation, interest and exchange rates of participating states fall within the prescribed range and for a set period, before their membership to a monetary union was approved. These rates should also, amongst other things, be set by independent central banks free from political influence. The latter, necessitates that the safeguards for central bank independence and accountability are enshrined in law. Provisions such as the salary, dismissal and appointment of central bank Chiefs, for example, should be stipulated in Member States' laws. Most ECOWAS states have been unable to achieve the convergence criteria set for them and this has been the main reason for the postponement of the monetary union since 2003 – the first deadline for its launch.
- Economic coordination was also provided for in the convergence criteria prior to the monetary union and this included ensuring that internal and external deficit do not exceed a set percentage of GDP. It also included the convergence of fiscal policies after a monetary union through the institution of an excessive deficit procedure warranting the intervention of regional institutions such as Council and Commission when Member States violate these rules. Of course, all of these were enshrined in the EU Treaties and had the full weight of the EU legal infrastructure backing and guaranteeing the enforcement of these provisions. All of this was also underpinned by the strong supranational regime which characterises the EU and has been the hallmark of its success thus far. Unfortunately, this is not yet the case among ECOWAS states.

- The convergence of financial policies is also key – as the European dimensions of the global financial crisis of 2008, which then morphed into a full-blown economic crisis, revealed. A concrete plan for financial harmonisation within a monetary union necessitates a robust regime for banking and capital markets harmonisation. Again, both the pre-crisis and post crisis framework of the EU revealed that strong supranational co-ordination between regional institutions (such as the Commission, European Central Bank and European Supervisory Authorities) and domestic institutions, is a necessity.

The EU experience revealed that even with the great strides made in achieving a monetary union, the very foundations of this union can be shaken as seen during the 2008 global financial crisis. As such, monetary union is no mean feat for a regional arrangement without a robust legal and economic framework. ECOWAS states, should bear this in mind as they plan to proceed with the monetary union agenda.

6. With all of the above to consider, what WAEMU states have in their favour is that discussions around a monetary union are being had in an era of financial technology. With discussions around central bank digital currencies and the benefits these can have for monetary transmission of policies, the main worry for the states would not be the choosing the infrastructure for the operation of their single currency but the decision as to which currency they would use as a peg. And when it comes to the wider ECOWAS arrangement, they would need to decide which currency or currencies would need to be the anchor for the regional currency. Would it be the Nigerian Naira - the strongest currency in the sub-region but also currently unstable? Also, would Nigeria be prepared to be the support currency for such monetary union? Would Nigeria be prepared to relinquish the Naira for a regional currency? While the answers to these questions are hardly in the affirmative, one thing that is certain is that the achievement of a monetary union across West Africa would be a huge leap forward in the context of the ultimate goal to achieve a pan-African monetary union by 2028 as set out in Article 6(2) of the African Economic Community Treaty. The African-wide monetary union would also go a long way in facilitating the African Continental Free Trade Area. However, at the moment, all of this appears very theoretical and, for now, far away from reality.

7. Since a successful monetary union without France is one that should be characterised by monetary and price stability through the operation of an independent central bank, WAEMU states would need to work on achieving some sort of stability during the Covid-19 pandemic. This should include aiming for stable inflation rates – which would require an independent central bank. As a result, they should focus on putting in place the legal safeguards for central bank independence. Of course, all of this would be more difficult to achieve during the Covid-19 crisis, as such they would need to also embrace suggestions for the wider ECOWAS group put forward below.

With respect to the wider ECOWAS group, rather than aiming to achieve a monetary union across ECOWAS, all Member States should focus on minimising the implications of the Covid-19 crisis on their economies. They should endeavour to: contain the health crisis; secure supply chains of essential products; maintain the stability of financial systems; help businesses survive the crisis; and support households' economic welfare. They also need to consider an extensive stimulus package to reverse the economic damage of the crisis. If they are able to get through this crisis and be in positions requiring the strengthening of their economies rather than rebuilding their economies after the crisis, this would be a far better position for forging ahead with a monetary union agenda.

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