Symposium on the CFA Franc Reform in West Africa: What Options for the Transition from the CFA Franc to the Eco?

By:

Kako Nubukpo

December 19, 2022

The newfound freedom of speech vis-à-vis currency in the African franc zone, following the announcement on 21st December 2019 in Abidjan (Côte d'Ivoire) of the imminent end of the CFA franc and its replacement by the Eco, brings to mind the "resurgence of repressed instincts" in psychoanalysis, in other words it is giving rise to every possible or imaginable excess, especially from the "25th hour" combatants, who are only now discovering that the CFA franc is not compatible with the emergence of French-speaking Africa.

Yet while it is important to continue putting pressure on the CFA franc, it is also essential to propose the possible outlines of the transition to the replacement currency, the Eco, whose (re)birth was announced on 29th June 2019 in Abuja (Nigeria) by the Summit of Heads of States and Governments of the Economic

Community of West African States (ECOWAS). In this regard, four options – among others – seem to be solid enough to unite the 15 member states invited to the Eco banquet:

1. **The Eco, a simple avatar of the CFA franc**, anticipates the progressive expansion of the West African Economic and Monetary Union (WAEMU) to include the economies of the ECOWAS with the same profile of exporters of agricultural raw materials as those of the WAEMU. This is the model which seems to have inspired the Abidjan declarations of 21st December 2019, based on the respect of nominal convergence criteria and a strong affinity for a fixed exchange regime against the Euro. With this option, the *centralisation of foreign reserves* is fundamental, and it is the main outcome of the history of the CFA franc. It assumes and conveys a high level of political solidarity between the WAEMU States and this must not be forgotten in the event of new members joining. Similarly, *the question of the external guarantee*, as performed by France in the institutional context of the CFA franc, has a strong political dimension: it ensures the system's stability in theory and in practice. If we keep the principle of centralising reserves, but by refocusing their management in another institutional framework, monetary sovereignty would go from France to WAEMU then to ECOWAS. There is also *the question of parity*: a lot of work was done on the subject a few years ago to propose a flexible or more easily adjusted exchange system, one based on an index calculated from a basket of currencies. The decision made in Abidjan to maintain a fixed exchange rate with the Euro as a transitional measure is the real sticking point between the followers of a flexible currency (Summit of ECOWAS Heads of States) and those of an Eco-CFA (Côte d'Ivoire and Senegal).
2. **The second option is that of a Real-Eco based on real convergence** , that of GNP per capita, and no longer on the respect of nominal convergence criteria as in the case of the Eco-CFA. In this case, ECOWAS economies would be obliged to converge to the top three made up of Cape Verde, Nigeria and Ghana. The Eco would have a flexible exchange regime regulated by an inflation targeting framework. The convergence dynamic would be quite different and WAEMU States would lose their status as 'good convergence performers' and therefore driving forces of the Eco's implementation process.

But is Nigeria, the real heavyweight of ECOWAS (70% of the GNP and 52% of the population) ready to take on the role of “locomotive” in the Eco zone? Why would it agree to be the lender of last resort in ECOWAS, a role which it declined when the second monetary zone was established in West Africa (WAMZ) in 2002, and more importantly, why would it abandon its currency the Naira, in the present context where internal tensions within the Nigerian federation are being resolved by money printing?

3. **Third option, the Eco-Naira**: in this case, we would return to the original philosophy of the WAMZ. In fact, on 20th April 2000 in Accra (Ghana), six West African countries (Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone) announced their intention to create a second monetary zone in West Africa with the Eco as currency, alongside the WAEMU’s CFA franc. The project planned a future merger of this second monetary zone with the WAEMU, so that the borders of the monetary union would be those of the ECOWAS. In April 2002, the West African Monetary Zone (WAMZ) was established, and each country committed to maintaining its exchange rate within a 15% fluctuation range in relation to the Dollar. Following that decision, with regard to the introduction of the single currency, the inertia was tangible, until the ECOWAS Summit of 29th June 2019 in Abuja announcing the creation of the Eco in 2020 and the communiqué of the WAMZ Council of Ministers of 16th January 2020, accusing the States of WAEMU of violating the spirit of the Eco currency following the Abidjan declaration. All this could lead to the creation of an “Eco-Naira”, under the leadership of Nigeria, which was stung by the francophone initiative of an “Eco-CFA” which is in the process of becoming a reality.
4. **Fourth option, the common but non single Eco currency:** While a single currency is necessarily a common currency, the opposite is not always true. The history of the European Payments Union (EPU) between 1950 and 1957, prior to the Treaty of Rome establishing the European common market, illustrates the capacity for a “lighter” agreement than that of a single currency to contribute to strengthening the integration process between countries and thus prepare the conditions for the transition to more intense forms of integration. In 1960, the Senegalese economist Daniel Cabou, who went on to become the first secretary general of BCEAO, suggested borrowing the European model and setting up an “African Payments Union”, an idea that was taken up again nine

years later by the Egyptian economist Samir Amin in a report for Nigerian president Amany Diori.

How can we reinterpret this model within a roadmap for the Eco? By imagining that the countries which are not yet able to join the single currency could affiliate themselves to it through exchange rate agreements. Mechanisms of symmetrical reduction of trade imbalances could, using the same mechanisms initiated during the EPU, help to put surpluses back into circulation within the ECOWAS zone, by encouraging the development of specializations between economies which is the key to increasing intra-zone trade. Which is, in turn, one of the major economic and political goals of the integration process.

Finally, several options are on the table for West African decision-makers. The process of creating the Eco seems to be a real test of credibility of West African vision and governance. For France, this process would be more of a test of sincerity of their commitment to bury the CFA franc once and for all.

There is a Togolese proverb that says: “when someone pretends to die, you have to pretend to bury them”. Let’s organise the funeral of the CFA franc and, at the burial, when the Eco has actually been introduced, we shall record the death of the ex-franc in the French colonies of Africa. If not, it will move and the struggle will resume!

Short Bibliography

- Amato M., Nubukpo K. (2020): «A New Currency for West African States: The Theoretical and Political Conditions of its feasibility», *PSL Quarterly Review*, 73 (292): 3-26.
- Nubukpo K. (2020) «La Zone Franc et le Franc CFA: retour sur un contentieux économique et politique», *Les Possibles*, N°22, Hiver 2020, PP.97-103.
- Nubukpo K. (2017) « *Misalignment of Exchange Rates: What Lessons for Growth and Policy Mix in the WAEMU?* », Global Economic Governance Programme, Working Paper N°126, University of Oxford, mars 2017, 27P.

---

* Full Professor, Dean of the Faculty of Economics and Management, University of Lome (Togo) Contact: kakonubukpo@yahoo.com

View online: Symposium on the CFA Franc Reform in West Africa: What Options for the Transition from the CFA Franc to the Eco?

Provided by Afronomicslaw