Book Review: Africa's Last Colonial Currency: The CFA Franc Story

By:

Francisco Perez

February 9, 2022

In “Africa’s Last Colonial Currency: The CFA Franc Story,” Fanny Pigeaud and Ndongo Samba Sylla highlight the monetary side of French neo-colonialism in Africa, while emphasizing that “There is nothing more ‘political’ than money.” Sylla and Pigeaud provide an overview of the history of the CFA franc, its colonial origins, how it operates both technically and politically, and proposals for more democratic and development-oriented alternatives. They do so in a clear and accessible way that explains basic concepts like foreign exchange rate markets and regimes. This book both reflects and contributes to the growing opposition to the CFA franc. The CFA’s functioning is obscure even in France and the CFA zone member countries; therefore, this newly translated edition is valuable and timely. It helps expand the number of Africans that can meaningfully participate in these crucial debates about the future course of the continent’s development.

Pigeaud and Sylla criticize the CFA for, one, its rigidity, with the nominal exchange rate changed only once since 1948; two, the peg to the euro, which

leads to frequent overvaluation; three, the restrictions on domestic credit necessary to maintain the peg; and, four, facilitating capital flight. These all combine to hinder economic development, with several CFA members being among the poorest countries in the world today.

As the original title suggests, Pigeaud and Sylla centre the close, and often corrupt, links between French and African elites that have survived formal decolonization, known popularly as “La Françafrique.” They state bluntly that two main beneficiaries of the system are the French state and multinationals. French companies investing in the CFA zone face minimal currency risk and can freely repatriate their profits. The French state can access strategic resources, like uranium, at low prices while maintaining its delusions of grandeur as a world power. France is one of a handful of states with foreign bases—all but one in Africa—and can use its role as *gendarme de l’Afrique* to justify keeping its permanent seat on the UN’s Security Council.

Sylla and Pigeaud clarify the most controversial and least understood aspects of the CFA arrangement, the “operations accounts” and the accompanying “convertibility guarantee.” Typically, when a government pursues a fixed exchange rate its central bank must have enough foreign reserves so that it can stand ready to sell foreign currency and buy its domestic currency at the fixed rate (the reverse is rarely a problem since central banks can simply create the domestic currency they would need to buy dollars or euros). Upon formal independence, the French government offered the central banks for French West Africa and French Equatorial Africa an overdraft facility, so that they could always borrow the French francs necessary to “guarantee” convertibility of the CFA franc into the French franc. In return, the two regional central banks had to deposit all their foreign reserves in French francs at special “operations accounts” with the French Treasury. The French Treasury would keep representatives on the boards of the two regional central banks to monitor their activities; and most importantly, it would remain these African economies gateway to foreign trade and finance.

Making the French franc the reserve asset for the CFA zone gave the French state and capital a similar set of the political and economic advantages in Africa to those the United States enjoys on the global stage since the US dollar is the closest thing to world money. The first major advantage it gave the French was

the “exorbitant privilege” of being able to pay for African imports with a currency it controlled, allowing the post-war French government to save on its own scarce foreign reserves. Indeed, the French government created the CFA franc months after the end of the Second World War, with the explicit aim of helping France recover. The CFA franc was initially overvalued, making importing from and exporting to France beneficial and discouraging trade with other countries. The second advantage is the ability to impose punitive financial sanctions on enemy governments as will be seen in the case of Cote d’Ivoire below.

As decolonization was being negotiated, French authorities punished those governments that tried to assert greater monetary autonomy. Sekou Toure’s government in Guinea was the first to try to create its own currency while remaining pegged to the French franc. Still smarting after the Guinean people voted overwhelmingly for immediate independence in 1958, the French government sabotaged the Guinean franc by printing and distributing counterfeit bills. It then pointed to the Guinean experience as a cautionary tale. Modibo Keita’s government created a Malian franc but was later overthrown in a French-supported military coup in 1968—a leitmotif of la Françafrique. Mali meekly re-entered the West African Monetary Union in 1984. Togo’s first president, Sylvanus Olympio, was not a radical nationalist like Keita and Toure, but he was an LSE graduate and Unilever executive that sought broader ties to the UK and Germany—Togo’s original colonizer. When he proposed a Togolese franc, he too was killed during a French-supported military coup in 1963. All three governments had tried and failed to negotiate looser arrangement with the French that would have replaced the operations accounts with a “*compte d’avance*,” a line of credit from the Banque de France (similar to the “swap lines” offered by the Federal Reserve to select central banks last year). This would give them greater autonomy over how to hold and invest their foreign reserves while still having access to French francs in case of emergency.

Sylla and Pigeaud insist that the convertibility guarantee is illusory. The only time in the CFA’s history that the operations accounts had negative balances, in the 1980s, the French government eventually imposed a 50% devaluation of the CFA franc—doubling the prices of imported goods overnight. In January 1994, the conservative French Prime Minister, Eduard Balladur, proclaimed the “Balladur Doctrine”: CFA zone governments that needed to borrow foreign

reserves to pay for necessary imports and make foreign debt payments would have to go “hat in hand” to the IMF like all other peripheral countries. There would be no “automatic” bailouts from the French Treasury.

Perhaps the best illustration of how La Françafrique works—how its monetary, commercial, diplomatic, and military aspects reinforce one another—is the French intervention in the disputed Ivorian election of 2010. The Sarkozy Administration favoured Alassane Ouattara—a personal friend of Sarkozy and long-time loyal agent of La Françafrique—over the incumbent Laurent Gbagbo. When Gbagbo refused to concede, the French government applied an economic tourniquet. First it pressured the BCEAO to freeze the Ivorian government’s accounts, then it pushed Governor Philippe- Henri Dacoury-Tabley to quit. Next it compelled French banks in the country to shut down. Then the French Ministry of Finance suspended the Ivorian government’s access to operations account, effectively blocking all foreign trade and investment. Justin Koné Katinan, the budget minister at the time, described in astonishment: ‘I witnessed the reality of Françafrique with my own eyes. I saw how our financial systems continue to be totally under France’s dominion…I saw how a single official in France can block an entire country.” Finally, when such a financial stranglehold did not work quickly enough, Sarkozy sent French troops based in Abidjan to capture Gbagbo in April 2011.

France’s junior partners in Africa also benefit from the La Françafrique. First, the CFA zone’s political leaders have enjoyed extraordinary longevity and in some have built successful dynasties, for example, the Bongos in Gabon (1967-Present), the Gnassingbés in Togo (1967-Present), the Debys in Chad (1990-Present), Blaise Compaoré in Burkina Faso (1987-2014), Paul Biya in Cameroon (1982-Present), Teodoro Obiang in Equatorial Guinea (1979-Present), Félix Houphouët-Boigny in Cote d’Ivoire (1960-1993), and Denis Sassou-Nguesso in Congo-Brazzaville (1979-1992, 2002-Present). La Françafrique has helped all these dinosaurs to stave off extinction. The CFA franc also allows affluent Africans access to cheaper luxury imports and to get their wealth quickly and safely out of Africa.

Sylla and Pigeaud conclude with the recent attempts by the Presidents Macron of France and Ouattara of Cote d’Ivoire to head off more significant reforms by rebranding the CFA. Instead, Pigeaud and Sylla examine options that can

achieve real monetary sovereignty in the CFA zone. The first, which they dub “nationalist exit,” would mean each member creating its own domestic currencies and going their separate ways. The second set of options, which they call a “Pan-Africanist exit” would mean kicking out the French and removing the peg to the euro. CFA governments could keep a single currency, but as the experience of eurozone has demonstrated, to make it successful would require greater political and fiscal integration. Instead, CFA countries could opt for a looser agreement, like the European Monetary System of the 1980s with each country having its own currency but pegging it at fixed, but adjustable rate to a common unit of account. Members could still pool their foreign reserves and avoid the use of foreign exchange in payments among themselves.

Discussions of monetary and exchange rate policies in the CFA zone have been purposefully obscured. Pigeaud and Sylla have done a great service in helping “The African citizens who live under the ‘CFA system’, but also the Europeans, and above all the French, who reap the benefits of the system…know its history, functioning and consequences.”

Francisco Perez is the Director of the Centre for Popular Economics and a PhD candidate in economics at the University of Massachusetts at Amherst.

View online: Book Review: Africa's Last Colonial Currency: The CFA Franc Story

Provided by Afronomicslaw