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NEW CURRENCY, SAME STORY: HOW THE CFA FRANC FACILITATES FRENCH NEOCOLONIALISM IN WEST AND CENTRAL AFRICA

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NEW CURRENCY, SAME STORY: HOW THE CFA FRANC FACILITATES FRENCH NEOCOLONIALISM IN WEST AND CENTRAL AFRICA

Joseph Grugan[*]

In the wake of World War II, France established two new currencies to be used in its African colonies: the West African CFA franc and the Central African CFA franc.[1] It created these currencies to maintain political and economic control at a time when colonial empires seemed to be coming to an end. When France's African colonies became independent in the early 1960s, France convinced them to continue to use its two colonial currencies. Today, France uses these currencies to continue to exercise control over the nations that used to be France's colonies, making the currencies institutions of neocolonialism. For the nations currently using the CFA francs as their currencies, terminating the currencies is a necessary step towards realizing full political and economic independence.

Today, eight countries use the West African CFA franc: Benin, Burkina-Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.[2] Its central bank, the Central Bank of West African States (BCEAO), is in Dakar, Senegal.[3] Six countries use the Central African CFA franc: Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.[4] Its central bank, the Bank of Central African States (BEAC), is in Yaoundé, Cameroon.[5] These nations collectively make up about 14% of

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[1] Anne-Marie Gulde, *Overview*, *in* THE CFA FRANC ZONE: COMMON CURRENCY, UNCOMMON CHALLENGES 1, 6 (Anne-Marie Gulde & Charalambos G Tsangarides eds., 2008).

[2] *Id.* at 2. These nations form the West African Economic and Monetary Union (WAEMU). *Id.*

[3] *Id.* at 6.

[4] *Id.* at 2. These nations form the Economic and Monetary Community of Central Africa (CEMAC). *Id.*

[5] *Franc Zone*, MINISTÈRE DE L'EUROPE ET DES AFFAIRES ÉTRANGÈRES (Dec. 2021), https://www.diplomatie.gouv.fr/en/country-files/africa/franc-zone/#sommaire_3 (the acronyms of the two central banks come from their French names).

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Africa's population and 12% of the total Gross Domestic Product (GDP) of all African nations.[6] Because the two currencies have a shared history and have the exact same value, they are often referred to collectively as the CFA franc.

The CFA franc has four defining characteristics. The first is that it is and has always had been pegged to France's domestic currency (formerly the franc, now the euro) at a fixed exchange rate.[7] This means that the value of the CFA franc is set at an unchanging ratio relative to the euro. The current exchange rate is 655.957 CFA francs to one euro.[8] The second characteristic is that capital can move unrestricted within each of the CFA franc zones separately.[9] Unrestricted movement of capital should, in theory, contribute to economic growth by allowing capital to be invested where it is most productive.[10] The third characteristic is that France provides a guarantee of convertibility of the CFA franc to France's domestic currency.[11] The fourth is that, in exchange for the guarantee of convertibility, France requires that the CFA zone nations keep half of their foreign currency reserves in an "operations account" in the French treasury.[12] Any purchase or sale by an economic actor in a CFA nation in a foreign currency must pass through these operations accounts.[13] As a result, these operations accounts are regularly credited and debited.[14]

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[6] *The Fabric of Reform*, INT'L MONETARY FUND, https://www.imf.org/external/pubs/ft/fabric/backgrnd.htm (last visited Jan. 19, 2025).

[7] FANNY PIGEAUD & NDONGO SAMBA SYLLA, AFRICA'S LAST COLONIAL CURRENCY: THE CFA FRANC STORY 1–2 (Thomas Fazi transl., Pluto Press 2021) (2018) [hereinafter Pigeaud]. The two CFA francs are pegged at the exact same rate relative to the euro. *Id.* Despite this, they are not directly convertible for one another. *Id.*

[8] Xianodan Zhao & Yoonbai Kim, *Is the CFA Franc Zone an Optimum Currency Area?*, 37 WORLD DEV. 1877, 1878 (2009).

[9] Nicolas van de Walle, *The Decline of the Franc Zone: Monetary Politics in Francophone Africa*, 90 AFR. AFF. 383, 387 (1991).

[10] Christian Scheinert, *Free Movement of Capital*, EUR. PARLIAMENT (Apr. 2023), https://www.europarl.europa.eu/factsheets/en/sheet/39/free-movement-of-capital.

[11] Kai Koddenbrock & Ndongo Samba Sylla, *Towards a political economy of monetary dependency: The case of the CFA franc in West Africa* 10 (Max Planck Scis. Po Ctr. on Coping with Instability in Mkt. Soc'ies, Working Paper No. 19/2, 2019) [hereinafter Koddenbrock].

[12] Corinne Deléchat & Jan Kees Martijn, *Reserve Adequacy in the CFA Franc Zone*, *in* THE CFA FRANC ZONE: COMMON CURRENCY, UNCOMMON CHALLENGES 90, 91 (Anne-Marie Gulde & Charalambos G. Tsangarides eds., 2008) [hereinafter Deléchat].

[13] African Department for the information of the Board of Executive Directors of the International Monetary Fund, *The CFA Franc System*, 10 IMF STAFF PAPERS 345, 347 (1963).

[14] Pigeaud, *supra* note 7, at 23.

I. HISTORY OF THE CFA FRANC

France established the CFA franc while it had colonial rule over significant parts of the African continent. Through the nineteenth and early twentieth centuries, France had encouraged the use of its franc as currency in its colonies, rather than indigenous currencies.[15] In the wake of World War II, France shifted its monetary strategy in colonial Africa. The war devastated France's economy: between 1945 and 1948, France had an annual inflation rate close to 50%.[16] By comparison, in the United States, annual inflation over the same period averaged about 13%.[17] By the end of the war, France's public deficit and foreign debt levels were far above sustainable rates.[18] France knew that it would have no choice but to devalue its franc relative to the U.S. dollar and the UK pound in order to recover economically.[19]

In light of the inevitable devaluation that would make France's international purchasing power weaker, France wanted to maintain some international pathways for "extracting wealth on favourable terms."[20] During the Second World War, Germany's partial occupation of France disrupted France's international trade relationships, and as a result France's African colonies had increased trade relations with the rest of the world.[21] France was

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[15] Koddenbrock, *supra* note 11, at 7.

[16] *World War II: a conflict with major economic consequences*, CITÉCO, https://www.citeco.fr/10000-years-history-economics/industrial-revolutions/world-war-ii-a-conflict-with-major-economic-consequences#:~:text=In%20addition%2C%20in%20order%20to,finances%20due%20to%20increased%20debt (last visited Jan. 19, 2025).

[17] Stephen V. Reed, *One hundred years of price change: the Consumer Price Index and the American inflation experience*, U.S. BUREAU OF LAB. STATS. (Apr. 2014), https://doi.org/10.21916/mlr.2014.14.

[18] Filippo Occhino, Kim Oosterlinck & Eugene N. White, *How Occupied France Financed its Own Exploitation in World War II*, 97 AEA PAPERS AND PROCEEDINGS 295, 297 (2007).

[19] Pigeaud, *supra* note 7, at 11; Karim Nashashibi, *Devaluation in Developing Countries: The Difficult Choice*, FINANCE & DEVELOPMENT 14, 15 (1983). When a country is facing an increase in foreign debts, it can devalue its own currency to help reduce its deficit. *Id.* This works by decreasing the relative price of its exports in foreign markets, while increasing the price of imported foreign goods in domestic markets. *Id.* The result is an increase in demand of domestic goods, which stimulates the economy, and a decrease in the demand for foreign goods, which will reduce trade imbalances. *Id.* At the end of World War II, the Bretton Woods System had just been established, and each member nation pegged its currency at a fixed rate to the U.S. dollar. Sandra Kollen Ghizoni, *Creation of the Bretton Woods System*, FED. RSRV. HIST., https://www.federalreservehistory.org/essays/bretton-woods-created.

[20] Pigeaud, *supra* note 7, at xi.

[21] *Id.*

eager to reestablish its exclusive economic relationship with its colonies.[22] France approached this goal by establishing the CFA franc and making it the official currency of its colonies.[23] France then set the value of the CFA franc at 1.7 metropolitan francs (the currency used in France at the time), increasing it to 2 metropolitan francs in 1948.[24] This exchange rate remained the same until 1994.[25] By overvaluing the CFA franc relative to the metropolitan franc, France kept producers in the CFA zone uncompetitive globally, creating an exclusive market for France.[26] The overvaluation of the CFA franc "was instrumental in helping France recover some of the economic ground it had lost in its African colonies."[27]

In the post-war years, colonized people around the world mounted successful independence movements. People in the French colonies of Indochina and Algeria had mounted armed rebellions against France, claiming their independence.[28] Witnessing its intercontinental empire start to deteriorate, France sought to maintain its economic advantage in West and Central Africa. France decided that, rather than waiting for further armed independence movements in its remaining colonies, it wanted to end its formal colonial relationship in West and Central Africa on its own terms.[29] France granted independence to the CFA zone nations through a series of "cooperation agreements" that, among other things, maintained the use of the CFA franc as the official currency in those nations.[30]

The new West and Central African nations experienced positive, if modest, economic gains during the early years of independence.[31] Through the mid-1980s, the CFA zone nations experienced higher GDP growth and

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[22] Koddenbrock, *supra* note 11, at 9.
[23] *Id.* at 8.
[24] *Id.*
[25] *Id.*
[26] *Id.* at 9.
[27] *Id.* ("With the CFA franc System, France was able to have access to critical raw materials needed for its economic recovery with the chief advantage that it could pay for them in French francs and below international market prices.").
[28] Halim Gençoğlu, *The legacy of French colonialism in Africa*, UNITED WORLD (Sept. 13, 2021), https://uwidata.com/20956-the-legacy-of-french-colonialism-in-africa/; Michael Ray, *Indochina*, BRITANNICA (Apr. 10, 2022), https://www.britannica.com/place/Indochina.
[29] *Id.*
[30] Pigeaud, *supra* note 7, at 16.
[31] Zhao & Kim, *supra* note 8, at 1878.

lower inflation than their African neighbors outside of the currency zone.[32] However, from 1986 to 1993, the zone "suffered from a cumulative deterioration of the terms of trade combined with growing external debt in line with fiscal indiscipline, and a bank crisis stemming from generous lending to public enterprises."[33] France decided to step in to try to increase the competitiveness of CFA zone-produced goods by devaluing the CFA franc.[34]

In January 1994, the CFA nations officially agreed to have the CFA franc devalued by half relative to the metropolitan franc.[35] The theory behind this devaluation was that it would increase the competitiveness of exports from the CFA zone in international markets.[36] Despite claiming to be acting in the interest of the CFA nations, France supported this devaluation without legitimate input from the very nations that it would impact.[37] Had the devaluation been explicitly initiated by France, it would have been a violation of France's guarantee of convertibility, since the CFA franc lost half of its value, meaning CFA franc holders could only convert their money to half as many metropolitan francs as they would have been able to before the devaluation. However, France avoided having to actually fulfill its promise of convertibility of the CFA franc by having the International Monetary Fund (IMF) officially mandate the devaluation.[38] The IMF achieved this by making the CFA nations agree to the devaluation as a condition of receiving future IMF loans.[39] France was thus able to avoid taking responsibility for the devaluation and claim that the devaluation was not a violation of its guarantee of convertibility of the CFA franc to metropolitan francs.[40]

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[32] *Id.*; van de Walle, *supra* note 9, at 391.
[33] Zhao & Kim, *supra* note 8, at 1878.
[34] Pigeaud, *supra* note 7, at 71.
[35] International Monetary Fund, *supra* note 6.
[36] Pigeaud, *supra* note 7, at 71.
[37] *Id.* at 67.
[38] *Id.* at 70.
[39] *Id.* The IMF had a French Managing Director at the time. *IMF Managing Directors*, INT'L MONETARY FUND, https://www.imf.org/en/About/senior-officials/managing-directors (last visited Jan. 19, 2025).
[40] Pigeaud, *supra* note 7, at 72.

The devaluation was successful in some respects; the agriculture, logging, and textile industries in the CFA zone all expanded.[41] However, the devaluation also led to a spike in inflation that dramatically reduced the purchasing power of CFA zone residence by increasing the price of imported household goods such as food and medicine.[42] Overall, real incomes in the CFA nations fell as a result of the devaluation.[43] When France decided to join the Eurozone a few years later, it was decided that the CFA franc would continue to be pegged to France's domestic currency, now the euro.[44] Again, this decision was made without legitimate input from the nations that it would most impact.[45] Today, the CFA franc remains pegged to the euro with an exchange rate of 655.957 CFA francs to one euro.[46]

II. Economic Impact of the CFA Franc

France has always maintained that the CFA franc is designed with the interests of its member nations in mind.[47] Its proponents states that the purpose of the CFA franc is to provide monetary stability in Central and West Africa. It does this by eliminating uncertainty about exchange rate variability relative to the euro and keeping inflation rates low.[48] It also lowers transaction costs of international trade within the CFA zone and between CFA zone nations and Europe.[49] It achieves this by removing any price fluctuations resulting from changes in the value of a currency, making future prices of goods and services denominated in CFA francs or euros

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[41] Isabelle King, *True Sovereignty? The CFA Franc and French Influence in West and Central Africa*, HARV. INT'L REV. (Mar. 18, 2022), https://hir.harvard.edu/true-sovereignty-the-cfa-franc-and-french-influence-in-west-and-central-africa/.

[42] Pigeaud, *supra* note 7, at 73.

[43] *Id.*

[44] *Id.* at 78.

[45] *Id.* at 73.

[46] *Id.* at 21.

[47] Pigeaud, *supra* note 7, at 12. When France established the CFA franc and set its value at 1.7 metropolitan francs, the French finance minister said that doing so was France "showing its generosity and its selflessness" and that France "[did] not want to impose on its distant daughters the consequences of its own poverty." *Id.* In 2017, French President Emmanuel Macron said that the CFA nations were welcome to leave the franc zone if they wanted. Koddenbrock, *supra* note 11, at 23

[48] Casimir Oyé Mba, *The pros and cons of the CFA franc zone*, AFR. REP. (Jan. 20, 2020, 8:05 AM), https://www.theafricareport.com/22378/the-pros-and-cons-of-the-cfa-franc-zone/#:~:text=It%20provides%20monetary%20stability%2C%20which,other%20countries%20on%20the%20continent.

[49] Zhao & Kim, *supra* note 8, at 1877.

predictable.[50] These factors ought to encourage investment and growth. While the CFA zone nations did experience higher growth and lower inflation than their neighbors in the 1960s and 1970s, these positive economic outcomes have since dissipated.[51]

The economic reality for the CFA countries shows that the benefits of the currency arrangement are being outweighed by the costs. Nine of the fourteen CFA zone nations are classified by the United Nations as "least developed nations."[52] CFA countries make up five of the eight lowest ranked nations in the United Nations Human Development Index.[53] Morocco, Tunisia, and Algeria, which all left the CFA franc, are all ranked significantly higher on the Human Development Index than the nations that remain in the CFA zone.[54] The monetary stability of the CFA franc ought to encourage foreign investment in the region. However, in 2016, South Africa, Egypt, Nigeria, Morocco, and Angola, all nations outside of the CFA franc zone, received more than half of foreign investment in African nations.[55] Only 7.1% of foreign investment went to Central African CFA nations, and the West African CFA nations received only 3%.[56] In fact, the CFA nations do not even receive the majority of French investment in Africa.[57] The lack of foreign investment in the CFA zone shows that the low inflation and predictable exchange rate of the CFA are not having their intended effect of encouraging foreign investment.

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[50] Pigeaud, *supra* note 7, at 30.

[51] Sanou Mbaye, *Africa's French Roadblock*, PROJECT SYNDICATE (May 21, 2013), https://www.project-syndicate.org/commentary/lagging-economic-development-in-africa-s-franc-zone-by-sanou-mbaye.

[52] U.N. Conference on Trade and Development, UN list of least developed countries, https://unctad.org/topic/least-developed-countries/list (last visited Jan. 19, 2025) (for reference, one of the criteria for being classified a least developed nation is having a per-capita gross domestic income below $1,018).

[53] U.N. Dev. Programme, Human Development Insights (Mar. 14, 2024), https://hdr.undp.org/data-center/country-insights#/ranks. The Human Development Index differs from the least developed nations criteria in that it has less of a focus on economics, and is instead determined by considering the extent to which citizens are able to lead a long and healthy life, their educational outcomes, and their standard of living.

[54] International Monetary Fund, *supra* note 6; U.N. Dev. Programme, *supra* note 53.

[55] Pigeaud, *supra* note 7, at 107.

[56] *Id.*

[57] Corentin Cohen, *Will France's Africa Policy Hold Up?*, CARNEGIE ENDOWMENT FOR INT'L PEACE (June 2, 2022), https://carnegieendowment.org/2022/06/02/will-france-s-africa-policy-hold-up-pub-87228.

The CFA franc hinders the economic development of its member nations in four significant ways: (1) it limits the domestic capital supply in CFA nations; (2) it is overvalued; (3) it facilitates capital outflow; and (4) it deprives member nations of the benefits of a free-floating currency.

A. Limited Capital Supply

The first detrimental factor, limited capital supply, is a result of the fact that the CFA franc must remain pegged to the euro. To maintain this peg, the CFA central banks must focus their monetary policy on controlling inflation so it remains consistent with the inflation rate of the euro.[58] The European Central Bank prioritizes keeping inflation low, so the two central banks in the CFA zone must also maintain a low inflation rate.[59] The developed economies of the eurozone benefit from a low inflation rate, but it hinders the growth of the less developed CFA nations because they need access to capital in order to develop, and higher inflation rates are seen as an unavoidable byproduct of development.[60]

The results of the CFA zone's capital controls are stark. In the West African CFA nations, total credit is equal to only 21.9% of annual GDP.[61] It is lower in the Central African CFA nations, at about 16.5%.[62] By comparison, credit in the sub-Saharan African nations outside of the CFA zone is, on average, equal to 80% of GDP; credit is equal to 115% of Morocco's GDP; 136% of France's GDP; and 230% of the United States' GDP.[63] Further, the little credit that is extended to enterprises in the CFA zone is mostly reserved for sectors that manufacture products exported to France and the rest of the world, at the detriment of domestic consumers.[64] The anti-inflationary measures in the CFA zone restrict the emergence of small- and medium-sized businesses, reducing the opportunities for individuals to lift themselves out of poverty.[65] For the few businesses that

[58] Koddenbrock, *supra* note 11, at 12.
[59] International Monetary Fund, *supra* note 6.
[60] *Id.*
[61] Koddenbrock, *supra* note 11, at 16.
[62] Pigeaud, *supra* note 7, at 114.
[63] Koddenbrock, *supra* note 11, at 16.
[64] Pigeaud, *supra* note 7, at 31–32.
[65] Koddenbrock, *supra* note 11, at 5.

can obtain lines of credit, they face the high interest rates that are necessary in the CFA zone to maintain a low inflation rate.

B. Overvaluation

The second reason the CFA franc limits its member nations' ability to develop is that it is overvalued. An overvalued currency can benefit a nation's economy: it lowers the price of imported goods and services, making them more affordable for domestic consumers.[66] However, it also hurts exporting industries by making their products less competitively priced on international markets.[67] In the long run, the combination of these two factors limits economic growth by hurting domestic industries and subsidizing foreign production.[68] The impacts of an overvalued currency are particularly harmful to a developing economy because the industries commonly found in developing nations, such as agriculture and textiles, are very competitive globally and slight price increases can result in significant reductions in demand.[69] The 1994 devaluation of the CFA franc did provide a major boost to the CFA economies by lowering the prices of their exports in international markets.[70] However, it also dramatically reduced the purchasing power for foreign goods of consumers within the CFA zone, resulting in an average decline in the real incomes.[71] Furthermore, France and the IMF instituted the devaluation unilaterally across the CFA zone, impacting the economies of the different CFA zone nations differently.

C. Capital Outflow

The third way the CFA franc hinders economic development is by facilitating capital outflow. Capital outflow occurs when the balance of incomes that are received from abroad within a nation are less than those paid

[66] Farok Contractor, *Currencies: Undervalued versus Overvalued*, RUTGERS (Feb. 8. 2019), https://www.business.rutgers.edu/business-insights/currencies-undervalued-versus-overvalued.
[67] *Id.*
[68] *Id.*
[69] Pigeaud, *supra* note 7, at 111–12.
[70] *Id.* at 72.
[71] *Id.* at 73.

out to the rest of the world.[72] The free movement of capital through the CFA zone makes it easy for European businesses to divest from ventures in the CFA zone whenever the economic outlook becomes unfavorable.[73] Fanny Pigeaud and Ndongo Samba Sylla characterize the outflow of capital from CFA nations as a "license to loot": "[w]hen key economic sectors are under the control of foreign capital, as is the case in most countries in the franc zone, the free movement of capital acts as a mechanism for draining African resources towards the rest of the world: a license to loot."[74] Equatorial Guinea and the Republic of Congo provide two dramatic examples of capital outflow in the CFA zone. Between 2000 and 2009, Equatorial Guinea and the Republic of Congo experienced negative balance of payments equal to about 43% and 30% of their respective GDPs.[75] These statistics reflect the fact that much of the wealth generated in those nations belongs to oil-extracting multinational corporations, and the CFA zone facilitates the extraction of domestic goods for foreign profits.[76]

D. Rigid Currency

The fourth way the CFA franc limits development is by depriving member nations of the benefits of a flexible exchange rate during external shocks.[77] A flexible exchange rate can act as a natural buffer to external economic shocks to an economy.[78] When a shock occurs that weakens a nation's economy, the currency of that economy will naturally depreciate to adjust for the nation's reduced economic strength.[79] The depreciation in that nation's currency will increase its global competitiveness until it reaches equilibrium, thus partially offsetting the negative impact of the shock.[80] The CFA nations do not enjoy the cushioning effect of a free-floating exchange

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[72] James Chen, *Capital Outflow: Definition and Examples*, INVESTOPEDIA (Feb. 10, 2021), https://www.investopedia.com/terms/c/capital-outflofw.asp.

[73] Pigeaud, *supra* note 7, at 90.

[74] *Id.* at 117.

[75] *Id.*

[76] *Id.*

[77] Zhao & Kim, *supra* note 8, at 1877.

[78] Su Zhou, *The Response of Real Exchange Rates to Various Economic Shocks*, S. ECON. J., Apr. 1995, at 936, 936.

[79] *Id.*

[80] *Id.*

rate. Because their currency is pegged to the euro, when an external shock specifically impacts the economies of one or more of the CFA nations, they enjoy no "cushion" from currency fluctuations.[81] Instead, CFA nations must "compress domestic prices and domestic expenditure in order to compensate for the lack of exchange rate flexibility."[82] A nation can compress domestic prices and expenditure by engaging in austerity measures, such as increasing taxes, reducing wages, and reducing government spending.[83] These measures can help to keep government deficit from growing as a result of the shock, but they come at the expense of the citizens and the broader economy of a nation. The effects of austerity measures have greater impacts on consumers in developing nations, like those in the CFA zone, where a large percentage of household income is spent on bare necessities.

III. The CFA Franc as a Neocolonial Institution

In addition to the economic arguments for ending or changing the CFA franc arrangement, there is also a historical argument: the CFA franc can be understood as a neocolonial institution that is designed to maintain the global inequalities of the colonial era. In the words of Pigeaud and Samba, "[the CFA franc] is the most powerful weapon of the 'Françafrique,' this peculiar neocolonial system of domination that the French state established on the eve of the independence of the former colonies, with the precise aim of preserving the advantages of the colonial pact."[84]

France derives several benefits from the CFA franc that support the contention that the CFA franc is a neocolonial institution. First, it provides France with economic benefits. During both the colonial and the post-independence eras, French banks in the CFA franc zone have primarily financed production intended only for French markets.[85] The CFA franc facilitates this preference for production intended for France through its principle of free movement of capital and its fixed exchange rate, which provide French companies with exchange rate certainty and allow them to

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[81] Koddenbrock, *supra* note 11, at 11.
[82] Pigeaud, *supra* note 7, at 30.
[83] *Id.* at 109–10.
[84] *Id.* at 3–4.
[85] *Id.* at 8.

freely invest and divest in the CFA franc zone, transferring profits to France.[86] The operations accounts (the accounts in the French treasury where CFA nations must deposit half of their foreign currency reserves) also provide economic benefit to France. When a CFA nation's operations account is in credit (meaning it has more deposits than the minimum 50%), France is able to access the foreign currency in the account to use for its own needs.[87] The operations accounts thus act like a small loan to France on terms favorable to France.[88] When the operations accounts are in debit, France still benefits, because the CFA banks have to pay interest to France for the foreign currency that France lends to the CFA nations to cover the deficit.[89]

A second way the CFA franc resembles a neocolonial institution is in the way it provides France with outsized political influence in the international sphere. Within the United Nations Security Council, France is considered the authority when speaking on the interests of the CFA nations.[90] France has interfered in national elections in The Ivory Coast,[91] Togo,[92] and Burkina Faso[93] since those nations became independent. Since the establishment of the franc zone, Paris has controlled all foreign currency transactions through the operations account mechanism.[94] Any time an economic actor in the CFA zone completes a transaction in a foreign currency, the foreign currency must be deposited or withdrawn from the French treasury.[95] Then, the French treasury deposits or withdraws the appropriate amount from the account of the CFA zone party involved in the transaction.[96] Because all foreign transactions must pass through the French treasury, France has a tremendous amount of leverage that it can employ against any CFA nation: France can choose to cut off one or more CFA zone nations from international trade at any time. This relationship gives France significant influence over the CFA zone nation's diplomatic affairs.[97]

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[86] *Id.* at 31.
[87] *Id.* at 24.
[88] *Id.* at 87.
[89] *Id.* at 24.
[90] *Id.* at 101.
[91] Koddenbrock, *supra* note 11, at 15.
[92] Pigeaud, *supra* note 7, at 49–50.
[93] *Id.* at 59–62.
[94] *Id.* at 10.
[95] *Id.* at 25.
[96] *Id.*
[97] Koddenbrock, *supra* note 11, at 14.

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IV. PROPOSAL: REPLACE THE CFA FRANC WITH TWO BASKET CURRENCIES

The CFA zone nations should consider dropping the CFA franc as their official currency because the currency limits member nations economically and maintains France's colonial legacy. Dropping the CFA franc would provide CFA zone nations with multiple benefits. Perhaps most importantly, it would sever the monetary policy of CFA zone nations from the monetary policy of the eurozone. This would allow CFA zone nations to pursue more aggressive monetary policies targeted at stimulating growth without being restricted by the requirement that they keep a very low inflation rate. It would also reduce capital outflow from the CFA zone, because France's guarantee of convertibility to the euro would no longer exist. Finally, it would end one of the strongest legacies of the CFA zone nations' neocolonial relationship with France, helping them to move farther away from their colonial history.

Should the CFA zone nations drop the CFA franc as their official currency, they could replace it with a free-floating currency, a currency pegged to a foreign currency other than the euro, or a currency pegged to a basket of currencies. The first option, a free-floating currency, would grant complete monetary independence, but would create significant risk of monetary instability and inflation.[98] Furthermore, it would probably require a nation with a large economy, such as Nigeria, to join as the guarantor of that currency. Nigeria seems unwilling to do so presently, making this an unrealistic option.[99] The second option, pegging a shared currency to a foreign currency other than the euro, such as the U.S. dollar or the Chinese yuan, would provide stability, but it would not grant CFA nations with any additional monetary independence. It would simply shift their monetary burden from adhering to the euro to adhering to a different foreign currency. This leaves the third option: pegging to a basket of currencies.

In addition to choosing what type of currency to have, the CFA zone nations would also have to choose to remain in a currency union, split up into multiple currency unions, or each develop independent national currencies. The downside to remaining in a currency union independent from France and

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[98] Atish R. Ghosh & Jonathan D. Ostry, *Choosing and Exchange Rate Regime*, FIN. & DEV., Dec. 2009, at 38, 38–39.

[99] Francisco J. Pérez, *An Enduring Neocolonial Alliance: A History of the CFA Franc*, 81 AM. J. OF ECON. & SOCIO. 851, 879 (2022).

the euro is that it could create conflict between CFA nations with different business cycles and therefore different monetary priorities.[100] Creating individual national currencies would avoid conflicts of interest related to monetary policies between the CFA nations, but it would present significant technical challenges for each nation, as well as significant risk, especially for the smaller nations, of substantial inflation and domestic price fluctuations.[101]

This Note proposes that the CFA zone nations replace the CFA franc with two separate currency zones, each with a currency pegged to a basket of foreign currencies. Pegging a currency to a basket of currencies is an alternative to a peg to a single foreign currency that grants the pegging nation some of the stability benefits of a peg to another currency, but slightly more monetary flexibility.[102] A basket of currencies is a collection of multiple foreign currencies which are all given a certain weight.[103] The home currency is then set at a certain fixed rate relative to the weighted average of each of the currencies in the basket.[104] A peg to a basket provides stability for small nations, since they can put relatively stable currencies in their basket, but also allows for some flexibility, because they can chose which currencies are in their basket and how much each one is weighted.[105]

A 2003 study conducted by the IMF found that "[g]rowth performance is best under intermediate exchange rate regimes"—those that are neither free floating nor a hard peg to another currency.[106] A peg to a basket of currencies would likely provide CFA nations with the "happy balance" to which the study refers.[107] Under the proposed regime, the two CFA zones could each create their own currency pegged to a unique basket. The euro could initially be heavily weighted in the baskets so that the CFA zone nations do not experience a dramatic shift from their current monetary arrangement. Then, over time, the nations could transition away from the euro, adjusting their

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[100] James Wilson, *Losing currency? The shifting landscape of the CFA franc zones*, 42 THIRD WORLD Q. 736, 748 (2021).
[101] *Id.*
[102] Shinji Takagi, *Pegging to a currency basket*, FIN. & DEV., Sept. 1986, at 41, 41.
[103] *Id.*
[104] *Id.* at 41–42.
[105] *Id.* at 42.
[106] Ghosh & Ostry, *supra* note 98, at 39.
[107] *Id.*

baskets to meet their evolving economic needs. For example, the baskets could gradually increase the weight of the Chinese yuan to reflect the fact that China is now a lead trading partner with the nations in the CFA zone.[108] As the weight of the yuan would increase in the currency baskets, the proposed currencies of the CFA zones would fluctuate less relative to the yuan. This stability would further facilitate these already existing trade relationships, benefiting both China and the CFA zones.

Creating two separate currencies would be a compromise for CFA zone nations between the independence, and the risk, provided by individual national currencies and the stability, but inflexibility, of a single currency sharded across the whole CFA zone. The first proposed currency zone would be in West Africa and include the nations that currently use the West African CFA franc, while the second would include the nations that currently use the Central African CFA franc. In Central Africa, nations like the Democratic Republic of Congo, Gabon, and Cameroon, all have export sectors dominated by petroleum and other oil-based products.[109] Because of the similar makeup of their export industries, the Central African CFA nations would have similar monetary priorities and would thus benefit from using a shared currency pegged to a basket that was specifically designed to meet the economic needs of oil exporting economies. The West African CFA nations, in contrast, have export sectors dominated by agriculture.[110] An exclusively West African currency could have a basket specifically designed to meet the monetary interests of the agriculture-exporting nations.

The transition from the current CFA franc to a system of two separate currencies, each pegged to a unique basket of currencies, would have some challenges. This transition would require agreement between the CFA zone nations on what currency or currencies to adopt, and how to administer them. The growing dissatisfaction with the CFA franc within the populations of the CFA zone nations[111] should present enough political pressure that policy makers will be able to find common ground on a new currency regime. Another challenge would be the actual creation and administration of new currencies pegged to unique baskets of currencies, which would be

[108] Wilson, *supra* note 100, at 744.

[109] DALEEP SINGH, FRANCOPHONE AFRICA 1905–2005: A CENTURY OF ECONOMIC AND SOCIAL CHANGE 395 (Allied Publishers Priv. Ltd., 2008).

[110] *Id.* at 75.

[111] Pigeaud, *supra* note 7, at 122.

technically difficult. However, there is no alternative to the current CFA franc arrangement that does not require developing complicated new monetary policy, so the CFA zone nations must accept this challenge if they want to end their monetary dependence on France.

The CFA franc is not the only mechanism that France uses to maintain its sphere of influence in its former African colonies. France has five permanent military bases on the African continent, four of which are in CFA zone nations.[112] French is an official language of thirteen of the fourteen CFA zone nations.[113] France's military presence and cultural legacy in the CFA zone is part of a complex web of soft and hard power that France uses to continue to exert control, and extract resources, in the region. However, the CFA franc has been called "the most powerful weapon of the 'Françafrique.'"[114] The CFA zone nations cannot exit the neocolonial era without separating their currency from France's.

CONCLUSION

This Note has proposed that the CFA zone nations exit the CFA franc and replace it with two new currencies: one used in the West African CFA nations, and the other used in the Central African CFA nations. The currencies would each be pegged to a unique basket of foreign currencies specifically designed to meet the economic needs of their respective regions. This system has many advantages. It would allow the CFA zone nations to transition smoothly away from the CFA franc, because the euro could initially be heavily weighted in each basket, meaning the exchange rate of the new currencies would initially behave similarly to the CFA franc. Over time, the central banks in the CFA zone could reduce the weight of the euro in each basket so that the new currencies better align with their member nations' modern economic priorities. The new currencies would display some of the stability of the CFA franc because they would be anchored to relatively stable foreign currencies, but they would not be strictly tied to the

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[112] Anna Sundberg, *France—A Continuing Military Presence in Francophone Africa*, SWED. DEF. RSCH. AGENCY (Aug. 2019), https://www.foi.se/rest-api/report/FOI%20Memo%206814.

[113] *What are the main French speaking countries?*, LINGODA, https://www.lingoda.com/en/content/french-speaking-countries/ (last visited Jan. 19, 2025). Guinea-Bissau, the lone CFA zone nation for which French is not an official language, is a former Portuguese colony. *Guinea-Bissau country profile*, BBC (Feb. 26, 2024), https://www.bbc.com/news/world-africa-13443186.

[114] Pigeaud, *supra* note 7, at 3–4.

euro and its low inflation rate. These basket currencies would provide an ideal balance of stability and flexibility to the CFA zone *nations*.

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