

**A NOTE
ON THE ADAPTATION OF THE FRANC ZONE SYSTEM
FOR THE AFRICAN COUNTRIES**

This note is in three parts:

- 1) A critical appraisal of the present system
- 2) The aims of the proposed reforms
- 3) The stages in the creation of new institutions

I. A critical appraisal of the present monetary system of the African countries in the Franc Zone

1. At the end of the first decade of independence in African countries, it seems hardly necessary to make an assessment of the operation of the monetary system of the African countries in the Franc zone, of the advantages this system has conferred – because of its stability – on the economic life of these countries and also of the constraints imposed on their development policies.

During this decade, the newly set up national administrations have acquired experience in conducting their administrative and political affairs and this can probably be regarded as the major success of this first decade of political independence. However, in the field of economic management, there have been few changes. On the whole, foreign companies still continue to dominate economic life and to operate as during the colonial period. Their economic aims have remained the same and very little has been done to bring them within a national self-centred economy. Even africanization at the upper levels of employment - though largely possible - has hardly been started as yet. Similarly, efforts with a view to promoting the establishment of national private enterprises have been disappointing. There are certainly deep-rooted social and structural reasons for this (right from the start, a very small group of businessmen, etc.) but these conditions have been made worse by the permanent competition from the expatriate business sector. For these and other reasons, the governments have been compelled to set up a more or less large public sector. This has been the case, for example, in Senegal for the marketing of groundnuts and in other countries. No doubt in Mali, in the People's Republic of the Congo and in Guinea (which, as we know, no longer forms part of the Franc Zone), matters have been taken further in this direction. This public sector which tends to dominate in these countries, at least in the modern sector of the economy, enables the State to be more consistent in the planning of its development programme.

It would not be unjustifiably pessimistic to suggest that even greater structural changes have to be carried out in the 70s if the aim is to speed up the development of the region and the overcome the increasing number of difficulties inherent in the structures inherited from colonization. The relatively slow rate of economic growth during the 60s (in spite of the fact

that it has been, on the whole, higher than it was during the colonial period and even during the last decade of that period) added to the higher growth of administrative and social costs which reflect the aims of the national movements for independence, lead to increasing problems of public financing. Faced with these problems, the States are gradually left only with the following alternative:

1) Either bring the rate of public expenditure into line with the growth rate, thereby condemning the country to stagnation, with the concomitant aggravation of imbalances and social tensions;

2) Or increase the role of the State with a view to stimulating economic development to keep abreast of social requirements.

No doubt, the first policy raises no serious problem for the foreign balance of the countries concerned. The second, however, although it seems to us the only positive approach, may bring about such difficulties. But this involves imbalances which stimulate development and development problems which we must accept and be prepared to overcome. In this respect, the extreme liberalism of the Sixties in the external relations of the countries in the Franc Zone appears as a luxury which these countries can ill-afford and a major obstacle to their development. France herself, as all the other European countries, found it impossible to overcome the problems - though less difficult - of reconstruction and modernization, after the war, without a strict control over her external relations; and we know of no developing country which has been able to speed up its development without experiencing difficulties with its foreign balance.

We must therefore find out to what extent the monetary system of the Franc Zone was responsible for the general trend in the development policy of that decade and how far it is possible to adapt the system in order to make faster progress during the following decade. Admittedly, the monetary system is only one instrument of development policy and a relatively weak one besides, and any monetary reform which is not accompanied by a set of policy measures for development is bound to fail.

The arguments repeated ad nauseum in favour of maintaining the complete statu quo with regard to the monetary system of the African countries in the Franc Zone, completely evade this fundamental problem.

The memorandum presented to the President of the French Republic by the President of the Republic of Niger, dated 5 January 1972, is a critical appraisal, admittedly in strong terms but fully justified, of the monetary system and the constraints which it imposes on the development policies of the States concerned.

This memorandum justifiably stresses the need for a greater mobilization of national resources for which foreign financial aid cannot be a substitute. For us Africans, we are now fully aware that the "Spectre of inflation", of which we are constantly reminded as the inevitable and automatic consequence of any reform of the monetary system, is but a hollow threat. We are now convinced that the mobilization of national resources depends on an active role being given to the monetary system. As pointed out in the memorandum, the monetary policy pursued by the B.C.E.A.O. (Central Bank of the West African countries) is systematically "deflationary" and imposes upon this group of poor African countries a policy of financial orthodoxy which cannot be tolerated for the developing countries of to-day, and

which, in any case, the developed countries themselves no longer practise. Although the Central Bank has carried out certain functions in a proper way, for example, the provision of short term finance to the national economies during the harvest season and for the import export trade, it has, for all practical purposes, refrained from actively supporting the long term development effort undertaken by both the national private sector and the public sector. This lack of positive action ensured that the operation account always retained a credit balance. As pointed out in the memorandum, this is “a luxury which the developing countries of West Africa cannot afford on a permanent basis”. In any case, under these conditions, the unlimited guarantee of the French Government is meaningless, as clearly indicated in the memorandum.

Mr. Julienne’s note on the monetary policy of the B.C.E.A.O. dated March 1972 is in fact an indirect reply to this memorandum. The fact remains that, according to this note, out of 223 billions in advances, medium and long term credits only amount to 58 billions, which is one of the lowest percentages in the world. This clearly proves that the system in fact imposes, on the African countries concerned, an orthodox policy which smacks of 19th century ideology, entirely incompatible with the primary needs for accelerated development.

In actual fact, the present monetary system makes it impossible for any monetary policy to work in the African countries of the Franc Zone. A “Central Bank” which is not empowered to lend its support to the Treasury except within very narrow limits and which does not control the foreign reserves of the country does not deserve to be called a central bank. If, in addition, as it happens to be the case, the commercial banks are foreign owned and are authorized to transfer funds in and out of the country without being subject to any control, the national authorities are bereft of all means of using the basic instruments of monetary policy. In any event, we have already seen that, following the disparity in the interest rates applied in Africa and in Europe, foreign owned companies were given the opportunity to borrow from the banks in Africa in order to invest in Europe.

Added to this basic criticism of the monetary system, there are other no less important criticisms which can be made.

2. As we know, the African countries of the zone now earn a substantial volume of foreign exchange (other than the French francs) the management of which, centralized at the franc zone level, is of direct benefit to the former mother country. As Mr. Xavier de la Fournière reminds us, the foreign exchange earnings of the African countries increased steadily from 372 million French francs in 1961 to 1218 million in 1966, at the very time when the annual foreign exchange earnings of the franc zone as a whole declined from 3028 to 1220 million French francs.

The now uncertain future of the international monetary system, and the restoration of exchange control in France, are additional reasons militating in favour of the autonomous management, by the African States, of their foreign exchange reserves. The devaluation of the French franc in 1969, for which the African States are not responsible but whose negative effects they nevertheless had to bear, proves - if that were necessary - that the system operates almost exclusively for the benefit of the former metropolis.

3. From the African angle, if it is desired to give real substance to the Economic Union of West African States, it would seem essential for those States to have full control of the monetary instrument. If, furthermore, it is really intended that the union should embrace all the West African States both French-speaking and English-speaking, it is essential for the

French-speaking States to have as much freedom of manoeuvre as the English-speaking countries which, except for Liberia, already have their own monetary system.

The argument that the present system, by maintaining a single currency for all the franc zone countries, is conducive to integration, and should therefore be maintained, is fallacious. In all other fields the States already have different economic and financial policies. The existence of a common currency liberally conceived cannot serve the purpose of this integration, however desirable, any more than can a common market on the same lines. The ways of bringing about economic integration must be worked out at the level of actual economic policy (resource allocation, protection of industries, planned development of agro-industrial and industrial complementarities among the States, etc.). Monetary policies must therefore be made instrumental to the targets of these real policies, and consequently they must be adapted in each country to the requirements of integration. Indeed, in Europe itself, economic integration takes the lead over currency union which can only be contemplated at the least stage of economic integration. Mutatis mutandis, the same should apply to West Africa.

4. In fact, on the European side, matters are not where they were at the beginning of the sixties. France now has partners in the European Community with which the African countries concerned are developing increasingly wide commercial and economic relations. Britain's entry in the Common Market will considerably intensify this broadening of the foreign relations of African States. Under those circumstances, support for African currencies can no longer be provided by the former metropolis itself but by all the developed countries with which the African States concerned have close relations, primarily of course the Common Market countries but ultimately other countries both in the West and the East.

If all these criticisms are accepted, we should conclude that the present system must be radically revised.

II. Aims of a reform of the West African monetary system

The strategic aim of the reform envisaged below is to create a West African Monetary Union (1) including all the States of the region (English-speaking and French-speaking) with a view to a genuine economic integration. The whole region would adopt a common external protection system and would have the benefit of a polycentric support from the developed countries. A system of individualized national currencies would enable monetary policies to be adjusted to the development policies in each State, in such a way as to take account of their specific situation. Institutions for economic and financial integration would complete the architecture of the reform and provide the means of correcting the structural imbalances characteristic of the relations between the States of the region. We will consider in turn each of the elements of the proposed reform.

1) The creation of national central banks and the conditions for the issue of national currencies

Upon completion of the reform, each State would have a genuinely autonomous monetary system, i.e. it would have its own central banks, such as exist in all the English-speaking countries of the region except Liberia. These central banks would thus manage the foreign reserves of each State and would be authorized to finance the national Treasuries.

It is obvious that the present system of the operation account would thereby disappear.

(1) The term Monetary Union may not be well chosen, since it usually implies the use of a single fiduciary currency. The term Monetary Association might be more appropriate

For this would be substituted credit accounts for each country, opened in the ledgers of the central banks of those developed countries which agree to support the West African economies (France, Great Britain, other common Market countries and other developed countries). The ceilings of these accounts would of course be the subject of negotiations, probably annual ones. In this way each State, depending on its own circumstances, could maximize the mobilization of its domestic resources since it would have an adequate monetary instrument.

Once again, the spectre of inflation must not halt reform. In order fields (such as administration) the States of the region have already demonstrated their abilities. There is no reason why they should be inevitably downed to uncontrolled inflation. When Sierra Leone, Gambia, Somalia, Rwanda, Burundi etc., for example, are capable of managing their currencies properly, there is no reason why the Ivory Coast, Senegal or Niger should not be capable of doing so. Despite the civil war which ravaged Nigeria, that country managed to contain inflation within reasonable limits. The same applies to Ghana, despite the considerable structural difficulties experienced by that country. And although Mali's monetary management was for a time somewhat disorganized, it remains nevertheless true that country, which in 1960 was among the poorest in West Africa, managed within 10 years to set up a public sector which is giving its national officials a much greater responsibility in running the affairs of their country than in the other countries of the region (indeed Mali now produces more than 700 school certificate holders (bacheliers) per year as against less than 60 for Niger and about a thousand for Senegal; it also produces more agricultural engineers and managers than Senegal and Ivory Coast combined).

The establishment of a central bank for each country would make it possible to adapt the monetary and financial policies to the variety of structural conditions and to that of the economic policies which, despite within a context of integration, cannot be identical. What is accepted in a given coastal country, which attracts foreign capital because the activities which that capital finances are profitable, does not necessarily apply to the hinterland countries where there is no alternative to the development of a public sector. Under these circumstances the forms of government action to mobilize domestic resources cannot be identical from one country to another.

2) The establishment of a West African Monetary Union

The purpose of this monetary union is to avoid a waterlight partitioning of the States and to facilitate their commercial and financial relations.

In our opinion, it would be highly desirable that exchange control be avoided between the countries of the Union, that movements of goods, capital and workers take place rather freely. Moreover, experience has shown that controls attempted on this scale are rather ineffective, even between countries of the franc area and the English-speaking countries for which they exist in theory. There are very large flows, considered as illicit, between the

Gambia and Senegal, Ghana, the Upper Volta and Togo, Nigeria, Niger and Dahomey in particular. Although the national policies of some States are unpaired by some of these flows (particularly when the smuggling involves some commodities of foreign origin, taxed at different rates from one country to another), most of these flows, particularly those involving commodities of local origin, should be encouraged. The liberalization of trade and economic relations between the countries of the Union does not debar the various countries from preserving the means designed for the protection of their industries (indirect taxation varying from one country to another, etc.). There is no conflict between this protection and the objective of the economic integration; it is rather the opposite, for it is the only guarantee which will make this integration acceptable to the least favoured countries.

The creation of a monetary union implies obviously a solution for the problem of parities between the various currencies of the union. It will be, moreover, an opportunity to review the present abnormal parities which, in fact, excludes all real possibility of an integration between the countries of the franc zone and the English speaking countries.

In the countries of the franc zone, the general price level is clearly above that obtaining in the English speaking countries, this also applies to the level of nominal (but not real) remunerations of agricultural producers and wage earners. Although adequate specific indexes to measure the gap are not available, this stares us in the face and simply shows the overvaluation of the C.F.A. franc, particularly with respect to the Nigerian pound and the Ghanaian cedi. All the arguments advanced in favour of the devaluation of the Malian franc (social income redistribution less unfavourable to agricultural producers, etc.) are mutatis mutandis, valid for the other countries of the franc area, although the necessary devaluation of the C.F.A. franc should no doubt be less severe than it has been in the case of the Malian franc.

If, however, fresh parities should be established between the currencies of the union, any system of flexible exchange which, under the conditions obtaining in the region, would give rise to uncontrollable micro-speculations should be avoided within the union. A system of rigid parities should therefore be established. This implies that the central banks of the union should undertake mutually to support their currencies by purchasing and selling the foreign exchange of the union at these fixed rates. This support would, obviously, be limited by ceilings and centralized at the union level. The currency of a State having a marked and constant debit balance should be devalued. Structural imbalances are still to be feared, due particularly to regional inequalities in development and/or possibly to the choice some States might make of an inflationary policy. That is why it will be necessary to follow up the payments union with a financial institution which will help correct these structural imbalances (see further on the functioning mechanism of this institution).

Obviously, the creation of a monetary union also implies a common control of the foreign exchange of the union. This may also very probably be an essential requirement of the English-speaking countries which already control their external relations quite efficiently if they are to accept a West African economic, monetary and financial integration. This external control could be very flexible with regard to trade in goods, the main attention being concentrated on capital flows. The control of transfers of liquid assets of foreign commercial banks to and from their head office should be rather strict so as not to reduce the instruments of national monetary policies to nothing. Besides, this would afford an excellent opportunity to devise a control, even if flexible, of transfers of the profits of foreign enterprises. In this connexion, the opinion that any restriction on the generous policy towards these enterprises

provided in the investment codes would umpair the foreign capital flow is certainly an illusion. The fact is that, in spite of a much more severe control, the countries of Latin America, North Africa, even of South Africa (!) and Asia have received much more foreign capital, even if we consider this in relative terms, than the African countries of the franc area. The openhandedness of the various States in this field very often cancel out the advantage which foreign investment might have for them. Moreover, the adoption of a less liberal common minimal code would give each of the States involved more bargaining power and made it possible for it to tax these enterprises more heavily, to accelerate the Africanisation process of the senior staff of these enterprises, etc.

3) The institution of a common development financing fund of West Africa

The objective of this Fund, as we have already pointed out, is to correct structural imbalances, between the coastal regions and the interior in particular. Therefore, the Fund is an essential instrument of economic integration.

To fulfil this function properly, the Fund should have large resources. That is why, in our opinion, the Fund should automatically receive a large share (half for instance) of the advances each central bank would give a national Treasury. Besides this, the Fund should manage part of the foreign exchange reserves of the monetary union and receive for instance, also automatically, an important share (for instance half) of the short term external credits offered by developed countries on loan accounts to the different States.

The large resources managed by the Fund would not be used to finance short term advances to the different States, but rather to correct the long term structural imbalances existing in the relations among these States. The Fund would therefore be used in the financing of development operations aimed at remedying regional inequalities in development.

Precautions should, of course, be taken so as not to waste the resources of the Fund. This problem should be seriously studied and the decision-making (weighted votes, etc.) as well as those of guarantee (ceilings etc.) specified.

In addition to these resources, the Fund may receive foreign aids specifically allocated to multinational integration operations for correcting regional imbalances.

III. Stages of the creation of the proposed system

It is obvious that the creation of this group of institutions (which would really lead to the economic integration of West Africa) which, in our opinion, is the very condition of the success of this economic union (without which the latter will, alas, remain a pious hope and a dead letter, should be carried out in stages. This does not prevent us from envisaging a quick succession of stages (a time limit of five years seems reasonable). Indeed psychological and political reasons certainly compel us to proceed by stages, we are proposing the following three stages in the implementation of the reform:

First stage: Maintenance of a single currency (C.F.A. franc), abandonment of the operation account and creation of a Common Fund.

The first stage will only involve the countries of the franc area and, therefore, will not yet integrate the English-speaking countries of the region. In this first stage, the common currency, the C.F.A. franc which will be maintained, will be issued by a common central bank. But this common issuing institution will become a real central bank, that is, it will manage the foreign exchange reserves and will be authorized to give advances to national Treasuries. The present system of identification of the money in circulation by a letter of the alphabet, and consequently of the identification of the foreign assets of the States, will, of course, be maintained.

The counterpart of the transformation of the present so-called central bank into a real central bank is obviously the abandoning of the operation account which will be replaced by a loan account. It will moreover provide an opportunity to request the opening of similar loan accounts by countries other than France.

The distribution of advances of the central bank to the different national Treasuries will be done at this stage within a framework defined by the community of member States. This community will therefore express itself when determining the volume of these advances and the use each of the States concerned will make of them.

The common Fund will be created in this first stage and will receive the means of financing mentioned in the previous section. Therefore, it will be used to begin the correction of the structural imbalances, even before passing on to a more advanced phase of the system.

During this first stage, the system of common investment codes and of exchange control to be established later, will be studied.

Second stage: Integration of the English-speaking countries

This integration will require:

- a) The fixing, at that time, of the parity between the C.F.A. franc and the currency of the English speaking countries;
- b) The creation of a common system of exchange control;
- c) The institution of a monetary union, that is, agreements between the common central bank of the French-speaking countries and the central bank of the English-speaking countries;
- d) The participation of the English-speaking countries in the Common Fund.

Third stage:

This last stage will be that of the creation of the national banks of the different French-speaking States inheriting from the Common Central Bank