

# The CFA Franc: An Obstacle or a Catalyst for Development?

## Is the CFA Franc an Obstacle or a Catalyst for Development?

### An Economic and Historical Analysis

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The CFA franc, the common currency of fourteen African countries and France, is one of the most controversial monetary systems of the postcolonial era. Created in 1945 as a tool to stabilize the French colonial empire, it survived the wave of independence and continues to shape economic relations between France and parts of Africa. This article offers an economic and historical analysis of this currency, examining its origins, institutional evolution, and contradictory economic impacts. Through an examination of guarantee mechanisms, convertibility, and management rules, we analyze how the CFA franc simultaneously provided remarkable monetary stability and imposed structural constraints on economic development. Our conclusion qualifies the binary debate, showing that the CFA franc has served both as a shock absorber and as a brake on economic autonomy.

*Keywords:* CFA franc, Franc Zone, UMOA, UMAC, monetary policy, economic development, colonialism, monetary sovereignty, exchange rate

#### Introduction

For decades, monetary issues have become one of the main drivers of the sovereignty movement in Africa. The debate over the CFA franc (Franc of the French Colonies of Africa, later renamed the Franc of the African Financial Community and then the Franc of Financial Cooperation in Africa) constitutes a major economic, political, and symbolic controversy in the postcolonial African landscape. This currency, created in 1945 and currently shared by fourteen African states divided into two monetary unions—the West African Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC)—maintains organic ties with France, which guarantees its convertibility.

The central issue addressed in this article examines the ambiguous role of the CFA franc in the development process of the African economies concerned: does it constitute a structural obstacle to their economic emancipation, or a lever of stability conducive to their integration into the global economy? To answer this question, we employ a dual approach—historical and economic—that allows us to contextualize the technical mechanisms within the long-term history of France-Africa relations.

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### **Context and Rationale**

The historical analysis will trace the colonial origins of the CFA franc and its adaptation to independence, revealing the persistence of a system initially designed to serve metropolitan interests. The economic analysis, meanwhile, will evaluate the comparative performance of Franc Zone countries in terms of growth, inflation, trade integration, and resilience to shocks, while identifying the constraints imposed by monetary management rules.

### **Research Question**

Does the CFA franc constitute a structural barrier to African economic emancipation or a lever for stability and international integration? Additionally, have the 2019-2020 reforms altered the foundations of the system?

### **Structure of the Article**

The article is organized into four sections in accordance with the IMRAD method. Following the introduction, the Methods section presents the analytical approach. The Results section traces historical facts and empirically assesses the effects of the CFA franc. The Discussion section interprets these results and explores reforms and future prospects. A general conclusion concludes the analysis.

## **Methods**

Our approach is based on a mixed-methods design combining historical-institutional analysis with quantitative and qualitative economic evaluation.

### **Documentary and Institutional Analysis**

We analyze the founding texts of the CFA franc (decrees of 1945, monetary cooperation agreements of 1972-1973, 1994 UEMOA and CEMAC treaties, and the reformed agreements of 2019-2020) to trace the formal and informal developments of the monetary regime. This textual analysis is supplemented by a study of the statutes of the central banks (BCEAO, BEAC) and the minutes of their boards of directors.

### **Review of the Economic Literature**

We draw on specialized academic literature concerning the Franc Zone: econometric studies on the effects of currency pegging (Fielding, & Shields, 2001; Bénassy-Quéré, & Coupet, 2005), studies on competitiveness and exchange rate misalignments (Veyrune, 2007; da Piedade, & Plane, 2021), institutional analyses (Stasavage, 2003; Pigeaud, & Sylla, 2018; Sylla, 2017), and economic policy debates (Nubukpo, 2011, 2016; Berthélemy, 2019; Agbohohou, 1999; Amin, 1973; Hugon, 1999). As for Ze Belenga' analysis (2016), it focuses on a scathing critique of the CFA franc system, arguing that it hinders investment and the development in the CFA zone.

### **Comparative Analysis of Statistical Data**

We use the following databases to make comparisons between CFA countries and non-Franc Zone African countries over the period 1960-2019:

- World Development Indicators (World Bank): GDP, inflation, growth, financial indicators;
- International Financial Statistics (IMF): balance of payments, foreign exchange reserves;
- Penn World Table: total factor productivity and comparisons of living standards;
- BCEAO and BEAC statistics: monetary aggregates and key interest rate policies.

The selected indicators are: (i) real GDP per capita growth rate, (ii) average annual inflation rate, (iii) share of manufacturing exports in total exports, (iv) private sector credit-to-GDP ratio, and (v) volatility of real effective exchange rates.

## **Epistemological Position**

We adopt a critical yet nuanced perspective, rejecting both unconditional praise and systematic condemnation. The objective is to grasp the complexity of a system with multidimensional effects, recognizing that its advantages and disadvantages vary according to historical periods, the countries under consideration, and the development criteria selected.

## **Results**

### **Origins and Historical Evolution of the CFA Franc**

#### **Creation within the Colonial Empire (1945-1960).**

The CFA Franc was officially established on December 26, 1945, by decree of Charles de Gaulle's provisional government. This occurred against the backdrop of post-World War II French reconstruction and the Bretton Woods Conference (1944). The initial exchange rate was set at 1 CFA franc = 1.70 metropolitan francs. The system was based on four founding principles:

1. Guarantee of unlimited convertibility by the French Treasury;
2. Fixed exchange rates with the French franc (later the euro);
3. Centralization of foreign exchange reserves (initially 100%) with the French Treasury;
4. Freedom of transfers within the Franc Zone.

These mechanisms created a structural dependence of the colonies on the metropolis, while facilitating the extraction of resources and capital transfers to France.

#### **Survival Through Independence (1960-1973).**

Contrary to all expectations, the colonial currency survived the independence movements of 1960, with the agreement of the new African elites, for economic (fear of instability), political (French conditions), and personal (ties among elites) reasons. In 1962, the issuing institutions became central banks (BCEAO, BEAC). However, France retained a veto right on their boards of directors, and the centralization of reserves was maintained through the "operations account".

#### **Crises and Adaptations (1973-1994).**

The decade from 1973 to 1994 was marked by growing tensions. The 1973 reform did not alter the fundamental architecture. The oil shocks and the debt crisis weakened the economies of the Franc Zone, whose competitiveness deteriorated due to a strong French franc. The 50% devaluation of 1994, imposed by France and the IMF, constituted a major political trauma revealing the asymmetry in decision-making: crucial monetary decisions were beyond the control of African governments.

#### **The Euro Era (1999 to the Present).**

Since 1999, the CFA franc has been pegged to the euro at a fixed rate of 1 EUR = 655.957 CFA francs. This development offers the advantage of pegging to a major international currency but perpetuates the problem of monetary policy being ill-suited to African economic cycles. Recent years have seen a rise in academic (Nubukpo, 2011, 2021; Pigeaud, & Sylla, 2018) and political criticism (movements such as "Sortir du Franc CFA" and "Urgences Panafricanistes"), foreshadowing the reforms of 2019-2020.

### **Economic Assessment of the Effects of the CFA Franc**

#### **Documented Advantages: Stability and Credibility.**

Empirical data confirm several economic advantages of the system:

- Price stability: between 1970 and 2019, average inflation in the Franc Zone was 4.7% compared to 16.2% in other sub-Saharan African countries.
- Credibility: the French convertibility guarantee eliminates exchange rate risk vis-à-vis the euro, facilitating access to international financing.
- Regional integration: the CFA franc facilitates trade and payments among member countries of the same union. Azam (2007) highlighted this reality in his article on the characteristics of trade in Africa.
- Resilience to balance of payments shocks: the French guarantee has helped avoid acute currency crises comparable to those experienced by other African countries.

#### **Structural Economic Costs.**

Conversely, several substantial economic costs have been documented:

- Inappropriate monetary policy: pegging to the euro effectively imposes the ECB's policy—designed for the eurozone—which can be pro-cyclical for Africa.
- Financial underdevelopment: the deposit of reserves with the French Treasury (historically 50%) deprives African economies of locally financeable resources.
- Constraints on competitiveness: pegging to a strong currency leads to regular overvaluations, penalizing non-mining exports and hindering industrialization.
- Negative distributional effects: the system favors importers and urban elites at the expense of local producers.

#### **Comparative Performance Over the 1960-2019 Period.**

The comparative analysis reveals a mixed picture based on reports from International Monetary Fund, in 2019, Bank of France and the West African Central Bank in 2020:

Economic growth: average growth in CFA countries of 2.8% per year versus 3.2% for other sub-Saharan African countries. The gap widens outside oil-producing countries.

Economic diversification: increased concentration on primary products; declining share in African manufacturing exports since 1970.

Financial development: private sector credit-to-GDP ratio and financial sophistication generally lower than in the Franc Zone.

Macroeconomic stability: greater price and exchange rate stability observed; resilience to acute shocks, but slower recovery capacity.

**Political and symbolic dimensions.** Beyond the technical aspects, the CFA franc carries a heavy political burden. The presence of French representatives on central bank boards (with veto power over certain decisions), the inability to freely determine monetary policy or exchange rates, and the historical centralization of reserves in Paris constitute, for many Africans, tangible evidence of the persistence of French domination—"monetary Françafrique"—following formal independence.

#### **The 2019-2020 Reforms and Their Limitations**

**Content of the reforms.** For UEMOA (December 2019): elimination of the operating account with the French Treasury, removal of French representatives from the BCEAO's boards of directors, announced name change (Eco), maintenance of the fixed parity with the euro and the French guarantee under certain conditions.

For CEMAC (2020): easing of reserve deposit rules (increased interest rate), maintenance of the operating account with greater flexibility, no name change announced.

**Limitations of the Reforms.** These changes represent significant symbolic steps forward but leave

structural limitations intact:

1. The French guarantee remains in place, perpetuating financial dependence.
2. The fixed exchange rate with the euro is maintained, perpetuating competitiveness issues.
3. The Eco has not yet been implemented, and its precise terms remain unclear.
4. The reforms are asymmetrical between UEMOA and CEMAC, undermining the unity of the project.

These reforms appear to be more of a cosmetic adjustment than a radical transformation. They address the most visible political criticisms without calling into question the economic foundations of the system.

## Discussion

### Summary Interpretation: A Mixed Record

The historical and economic analysis of the CFA franc reveals a complex reality that defies binary simplifications. Since its creation in 1945, this currency has served as both an instrument of postcolonial domination and a mechanism for macroeconomic stabilization. Assessing it in terms of development requires weighing contradictory effects: monetary stability versus loss of sovereignty, international credibility versus unsuitability for African economic cycles.

The fundamental question is not whether the CFA franc is purely and simply a “brake” or a “lever”—it has been both simultaneously, depending on the criteria considered and the historical periods. The question is rather whether, in the context of the 21st century, its advantages still outweigh its economic, political, and symbolic costs.

### Recent Reinterpretations of the Debate

Contrary to the traditional thesis of a French “reserved market,” analysis of trade and investment flows shows that China, Turkey, Germany, and the Gulf states benefit greatly from the exchange rate stability provided by the Euro/CFA parity, while France ensures the framework for it. This considerably qualifies the strictly neocolonial argument, without invalidating institutional critiques regarding the loss of economic policy autonomy.

Furthermore, the experiences of African countries that have left the system (Guinea, Mali in the 1960s) or diversified their exchange rate regimes suggest that monetary sovereignty is not, in itself, a panacea. The key lies in the quality of monetary and fiscal governance and in the ability to move closer to the Kaldorian “magic square”: economic growth, external balance, inflation control, and full employment.

### Alternatives and Future Scenarios

**Scenario 1 — Maintaining and Deepening Ongoing Reforms.** Continuation of the transition to the Eco while maintaining pegging to the Euro and gradually strengthening the autonomy of African central banks. This scenario minimizes short-term risks but perpetuates structural dependencies.

**Scenario 2 — Independent Currency with Flexible Peg.** Creation of a truly independent currency, managed solely by Africans, with the adoption of a flexible exchange rate regime or pegging to a basket of currencies (Euro, Dollar, Yuan). This scenario maximizes autonomy but exposes the system to risks of initial volatility.

**Scenario 3 — Integration into Pan-African Monetary Projects.** Merger with the future ECOWAS single currency and, in the longer term, participation in a continental monetary project within the framework of the AFCFTA (African Continental Free Trade Area). This scenario is the most ambitious but also the most politically complex.

**Scenario 4 — Financial and Digital Innovations.** Development of central bank digital currencies (CBDCs) to complement or partially replace the current system. Although unlikely in the short term, this option reflects the rapid pace of technological change, particularly the rise of mobile finance (M-Pesa) in African economies.

#### **Conditions for a Successful Monetary Transition**

Regardless of the option chosen, a successful transition requires the fulfillment of several prerequisites:

Economic prerequisites: economic diversification, development of domestic financial markets, strengthening of self-managed reserves, harmonization of fiscal policies.

Institutional prerequisites: capacity building for African central banks, credible and transparent governance, creation of regional solidarity mechanisms.

Political prerequisites: strong leadership and a shared vision, transparent communication with the public, democratic legitimacy of the new institutions.

The recommendation for the countries of the Alliance of Sahel States (AES) is to prioritize fiscal and monetary discipline, strong banking governance, and the development of a robust financial market before considering any exit, and to join, if appropriate, the ECO initiative of ECOWAS.

At this stage of the discussion, these states would benefit more securing their territories, increasing production, and trading more among themselves first, and then with others.

#### **Outlook in the Evolving International Context**

The rise of emerging powers (China, India, Turkey) in Africa, the dynamics of the AFCFTA, the development of digital finance, and the growing challenge to France's role on the continent are converging to make the CFA franc appear increasingly anachronistic. Pressure for deeper reforms is likely to continue to intensify, regardless of the persistence of certain stability benefits.

The quality of a currency is not linked to its peg to gold or a basket of critical metals; it depends on market confidence, competitiveness, economic growth, the stability of its value, and the surrounding macroeconomic and geopolitical conditions.

### **Conclusion**

The historical and economic analysis of the CFA franc reveals a complex reality that defies binary simplifications. The Franc Zone has provided valuable macroeconomic stability, but at the cost of reduced growth momentum and diversification, persistent financial underdevelopment, and a loss of economic policy autonomy. The 2019-2020 reforms, while symbolically significant, have not altered the structural foundations of the system.

The answer to the question “obstacle or catalyst?” depends on which conception of development one favors. If development is measured primarily by macroeconomic stability and integration into international financial circuits, the CFA franc offers clear advantages. If it is defined by decision-making autonomy, productive diversification, South-South regional integration, and political sovereignty, the system's disadvantages become predominant.

In the current context of a rebalancing of global relations and rising pan-African aspirations, the future of the CFA franc, in its current form, appears limited. The real question is no longer whether it will disappear, but when and how, and above all, what will replace it to better serve the development aspirations of African peoples. Ultimately, monetary sovereignty is not a panacea: the key lies in the sound governance of monetary and fiscal mechanisms in service of the Kaldorian magic square.

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